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D 8523 A

American economy:
inflationary fears
revisited, Page 19

World News

Business Summary

Ozal sets November poll date for Turkey

Turkish Prime Minister Turgut Ozal announced he would call early general elections in November. He was speaking after a referendum on the restoration of political freedom to leaders banned under military rule.

Analysts suggested that, by announcing his intention before the outcome of the referendum was known, Ozal had strengthened his position whatever happened. Ozal's main rival, Selim Demirel, would be a beneficiary in the event of a 'yes' vote in the referendum.

Chad strikes Libya

Chadian officials said that their troops had overrun a major Saharan desert air base on their first strike deep into Libyan territory. Page 3

Mengistu warning

Ethiopia would face further food shortages in 1988 despite rain in August, head of state Mengistu Haile Mariam said.

Polish march halted

Police broke up a march by 3,000 people in Miedzyrzecz, western Poland, in protest against plans to dump nuclear waste there.

Danish right tipped

Opinion polls and British bookmakers pointed to a third successive victory for the Conservative-led ruling coalition in tomorrow's Danish general election.

Burundi calm

Major Pierre Buyoya, who seized power in Burundi last week, said his coup had been peaceful, but communications with the outside world remained cut.

Soviet war games

About 14,000 East German and Soviet troops began military exercises south of Berlin, the East German official news agency reported.

Cuba jails ex-official

Luis Orlando Dominguez, former president of Cuba's civil aerodynamics institute, was sentenced to 20 years in jail for embezzling public funds.

Rangoon student riot

Rangoon University was closed after student riots in protest at a government order that three denominations of banknotes were no longer legal tender.

Austria accused

US Ambassador to Vienna, Ronald Lauder, said Austrians recently encouraged anti-semitism by sweeping it under the carpet.

Warsaw debt talks

Uruguayan Foreign Minister Enrique Iglesias left Poland after four days of talks on foreign debt problems.

Afonso's challenge

Argentines were voting in national elections viewed as the stiffest test faced by President Raul Alfonsin since the restoration of democracy in 1983.

US prison record

The number of inmates in US prisons had swollen to a record, \$70,519, the US Justice Department reported.

Three dead in Sudan

Three people were killed in student demonstrations in central Sudan, the Egyptian news agency MENA reported.

Richest entertainer

Comedian Bill Cosby, with earnings of at least \$57m this year, was the world's highest-paid entertainer, Forbes magazine reported.

Yugoslav protests

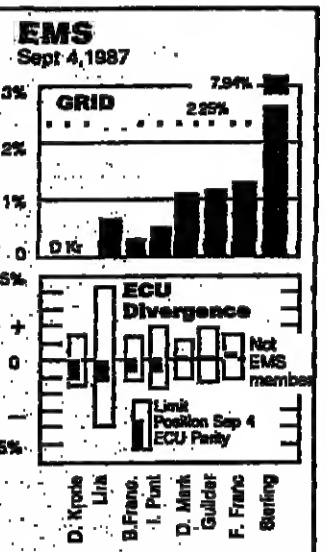
Protesters hurled rocks at the windows of bakeries in southern Yugoslavia owned by ethnic Albanians, apparently in retaliation for last week's killing of four soldiers by an ethnic Albanian.

Hanson acquires stake in Midland

HANSON TRUST, UK industrial conglomerate, has purchased just over 5 per cent of shares in Midland Bank, the troubled British clearing bank. Hanson confirmed the stake worth in excess of £100m (£165m).

The company described the purchase as 'an investment' but declined to say whether part of the interest was held in the form of options.

EUROPEAN Monetary Systems: Renewed dollar weakness prompted concern in the EMS last week. There were fears that its decline against the D-Mark would increase pressure on the weaker members, such as the Danish Krone and Belgian Franc.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the western currency, shows the cross rates from which no currency (except the lira) may move more than 2 1/2 per cent. The lower chart gives each currency's divergence from its 'central rate' against the European Currency Unit (ECU), the basket of European currencies.

BRAZILIAN officials have opened discussions with foreign banks and governments on its debt to convert the half its \$68bn debt into tradeable securities. Two top negotiators saw Midland Bank chairman Sir Kit McMahon in London last night and are due to meet other European bankers and Bank of England officials today. Page 29

PORTUGAL'S economy is growing faster than forecast with its gross domestic product for 1987 likely to grow by 4.6 per cent, highest growth rate in Europe, instead of the expected 3.7 per cent. Page 2

HEINEKEN, Dutch brewing group with worldwide interests, reported virtually stagnant first-half earnings of Fl 119.4m (\$58.8m) and the year's profits are expected to show little change. Page 23

BLUE ARROW, recruitment agency group, has succeeded in its bid for Manpower, the world's largest employment agency, clearing the way for a rights issue to fund the bid. Page 24

SINGAPORE Stock Exchange's new rules for settlement of transactions, which come into force today, have drawn a mixed response from London international brokers. Page 23

TOKYO: The rise in the US Federal Reserve discount rate from 5.5 per cent to 6 helped cause a drop of 366.68 points in the Nikkei index, which closed at 25,356.35 in Saturday's half-day session. World stock markets. Page 33

SANTA FE Southern Pacific, which is under federal orders to dismantle its rail network, has decided to sell the 13,000-mile Southern Pacific railroad. Page 22

ROBEKO, Dutch investment group, to establish a direct sales centre in Paris in its first attempt to build a marketing operation in another European country. Page 21

CZECH Premier Ladimir Stroschal has warned Communist officials about dragging their feet on far-reaching economic reforms. Page 4

Italian executives accused of Mideast arms exports

BY ALAN FRIEDMAN IN MILAN

MR FERDINANDO Borletti, one of Italy's leading industrialists, was arrested at the weekend in connection with what Italian authorities believe to be a major international arms and drugs smuggling operation.

The scandal threatens to dwarf all previous allegations of Italian involvement in arms traffic with the Middle East.

It brings together in a single investigation Mr Borletti, a director of the Turin-based Fiat group, a Brescia arms company 50 per cent owned by Fiat, the Sicilian Mafia, a network of arms shipments to Iran by way of Spain, Turkey, Nigeria and Syria and even the supply of arms to Islamic terrorists operating in Europe.

On Saturday an investigating

magistrate in the Tuscan port of Massa Carrara announced the issue of arrest warrants for 45 people, including Mr Borletti, who is chairman of Valsella Meccanotecnica, the Brescia-based producer of land and sea mines that is 50 per cent owned by the Fiat group. The company is alleged to have shipped huge quantities of mines to the Khomeini regime in Iran by way of cover companies in Spain, Turkey, Nigeria and Syria.

Mr Borletti, 63, whose own company has two Fiat executives as board members, is accused of illegal arms exports and association with criminal organisations.

Yesterday's arrest of Mr Borletti, who is also chairman of the company which publishes Il

Sole 24 Ore, the leading Italian business paper, sent shock waves through the world of Italian finance and industry. Along with Mr Borletti - taken into custody on Friday night as he was preparing to leave his villa near Padua for a business trip to Vienna - most of the top management of Valsella has been arrested and transferred to a prison in La Spezia, for interrogation which begins today.

The arrests follow an 18-month investigation that began after the December 1985 Arab terrorist attack at Rome's Fiumicino airport. According to Mr Augusto Lama, the main investigating magistrate, there is documented proof that the Brescia company's management was aware of the clandestine shipment of mines to Iran.

Mr Lama called in the Italian secret services for assistance after being unable to decipher codes used in telephone conversations that were intercepted between Valsella executives and Mr Aldo Anghessa, an Italian o-Swiss arms trafficker. Mr Anghessa was waiting at the Adriatic port of Bari last week for the arrival of a Beirut-based ship - the Boustary One - which was impounded by police upon its arrival on Thursday and found to contain missiles, bazookas, grenade launchers said to be

destined for European-based terrorists. It also contained two kilos of pure heroin, 15 kilos of hashish and a small quantity of opium destined for the Mafia clan which assisted the shipment.

Although Mr Anghessa (whose code name is 'Gianni') fled the police in Bari, he left behind in his hotel room a valise full of documents implicating Mr Borletti and others in an international arms intrigue. Whatever Mr Anghessa's role in the import of arms for terrorists or drug smuggling may have been, it is believed that this had nothing to do with the alleged shipment of mines from Valsella to Iran.

According to the investigating magistrate the intrigue saw Valsella exporting thousands of

mines to Iran from 1981. The judge said the mines were despatched first to companies in Spain, Turkey and Nigeria, then re-exported to Syria and finally delivered from Damascus to Iran. Meanwhile, a Mafia clan based at Trapani, on the west coast of Sicily, provided logistical assistance to a fleet of ships from the Middle East which brought supplies into Italy for use by Islamic terrorists in Europe.

In Turin, a Fiat spokesman told Italian newspapers on Friday that 'we know nothing about what is happening'. A series of hurried meetings were said to have been held at Fiat late on Friday night and Saturday morning, following Mr Borletti's Continued on Page 26

Kuwait prepares for retaliation after expelling Iranians

BY OUR FOREIGN STAFF IN THE MIDEAST, WASHINGTON AND LONDON

KUWAIT was yesterday bracing itself for further attacks, possible acts of sabotage and deeper involvement in the Iran-Iraq war following its weekend decision to expel five Iranian diplomats.

The Kuwaiti Government believes Iran fired three missiles - probably Chinese-made Silkworms - at its territory between last Wednesday and Saturday, opening a new phase in the war and further worsening relations between Iran and the Arab Gulf states. This is Iran's first reported hostile use of Silkworms, which the US has repeatedly warned Tehran against deploying.

Kuwait has complained publicly about one attack in which a missile damaged houses and industrial facilities on its southern coast early on Friday - narrowly missing a large Kuwait oil installation 26 miles south of Kuwait City.

The government subsequently summoned ambassadors from the five permanent members of the UN Security Council to launch a protest against what was termed Iranian aggression and gave five Iranian diplomats a week to leave the country.

Mr Hussein Mousavi, the Iranian Prime Minister, warned in Tehran yesterday that Iran would respond in due course but did not specify what action would be taken.

A Western official in Kuwait described the missile attacks as 'very provocative' and said they indicated the lengths to which Iran was prepared to go in attempting to intimidate Iraq's Gulf allies. The move is also bound to increase US concern about the war, since Washing-

ton has pledged to support to the Arab Gulf states.

However, General Vernon Walters, US Ambassador to the UN, yesterday studiously avoided any suggestion of a military response. He said the US naval presence in the Gulf was designed to protect freedom of navigation and rejected the idea that Washington was charged with protecting Kuwait.

US officials, including White House Chief of Staff Howard Baker, said earlier this year that the US would bomb the Silkworms if they became operational but they were then referring to missiles stationed at the Strait of Hormuz and directed at Gulf shipping.

Iranian leaders have repeatedly threatened to retaliate against Iraq's supporters on the Arab side of the Gulf, especially Kuwait, if the Iraqis resumed air strikes against Iranian economic targets. Iraq began attacking maritime targets in the Gulf on August 29 after a six-week lull it claims to have carried out 15 strikes in the past week.

Iran is, however, widely expected to try to engage in negotiations with a view to reviving Mr Perez de Cuellar's two-year-old peace plan which aimed at a step-by-step progress towards a full ceasefire. Gen Walters said yesterday: 'I think they (the Iranians) will try and stall.'

Bonn may offer Honecker economic aid at summit

BY DAVID MARSH IN BONN

THE BONN government is likely to offer Mr Erich Honecker, the East German leader, trade and investment help in exchange for the easing of border restrictions during his landmark visit to the Federal Republic which starts today.

The five-day visit, the first by an East German head of state to the western half of the divided nation, opens a new chapter in the tortured relationship between the two countries, mirroring the recent strengthening of general East-West détente.

The West German Government, worried about the political implications of receiving Mr Honecker in Bonn, has warned repeatedly in recent weeks against 'overburdening' the summit with exaggerated expectations.

In sheer protocol terms, Mr Helmut Kohl, the Chancellor, has to perform a delicate balancing act. West Germany will provide the Communist leader with a welcome - complete with military honours, official flag-flying and lunch today with President Richard von Weizsaecker which meets East Germany's requirement to be treated as a separate sovereign state.

Bonn is treating Mr Honecker with a great deal more respect

than when he was originally due to come in 1984, but is still trying to keep alive its official line that the two states are part of the same country which will one day be reunited.

Mr Honecker, accompanied by a large delegation of ministers, officials and journalists, will approve three inter-governmental accords on the environment, scientific cooperation and nuclear reactor safety.

The journey has generally been viewed positively by West German public opinion. But because of possible attempted distraction by extremists security will be intense, with 2,000 police likely to be called out today for his protection in Bonn.

An important theme is certain to be Bonn's desire to improve conditions for the much-increased number of East German travellers now permitted to make temporary trips to the West.

Mr Kohl is under pressure from the right wing of his Conservative-led coalition to avoid making undue concessions to East Germany. The Chancellor said at the weekend he would be asking Mr Honecker to end orders to border guards to shoot East Germans trying to escape across the Iron Curtain.

Bonn officials are wary of establishing a direct link between commerce and human rights. But the West Germans are clearly using the prospect of economic assistance as an indirect bargaining counter. Apart from offering improved opportunities for East German goods sales to West Germany, which have fallen in the last two years, Bonn is holding out the prospect of agreements on electricity supplies, improved railway links and on environmental technology.

Mr Honecker, 75, has built his career on allegiance to hard-line Stalinism, but now has a reputation as a pragmatist. He faces a packed programme of meetings with the cream of West Germany's politicians, industrialists and cultural figures.

He will visit the birthplaces of Karl Marx and Friedrich Engels, as well as the site of the Dachau concentration camp, and make a sentimental return journey to his native Saxe-Anhalt. His sister Gertrud, 70, who still lives in the modest family home in the village of Wiebelskirchen, will welcome him for coffee and cakes - heavily guarded by security men - in a private visit on Thursday.

US to seek tougher Cocom sanctions

By Lionel Barber in Washington

THE PENTAGON is seeking support under the Cocom agreement for tougher sanctions against companies selling sensitive technology to the Soviet bloc.

The proposals would require the 15 Cocom members - including the US, its NATO allies and Japan - to harmonise rules for granting export licences and penalties for breaching them. Cocom co-ordinates policies relating to the exports of strategically sensitive equipment to the Soviet bloc and certain other countries.

More controversially, the Pentagon would like to create an international blacklist whereby a businessman indicted for export offences in one Cocom country would be automatically denied an export licence by the others. Dr Stephen Bryen, deputy under-secretary for trade and security policy at the Pentagon and the man pushing the administration's plan, said: 'We must have tougher enforcement of Cocom rules, and (that means) a discriminatory view of licence applications.'

Dr Bryen said the recent failure over the Toshiba-Kongsberg sale of sophisticated milling machines to the Soviet Union could have been avoided with better scrutiny of export licences.

But he said he was more concerned about the lack of uniformity in the laws of Cocom members, and cited the example of a German businessman who, despite a 60-cent US indictment for conspiring to ship high-technology equipment to the Soviet bloc, was able to engage in similar business in West Germany.

Dr Bryen's proposal is certain to touch off opposition, particularly in countries such as the UK and West Germany

Prisoner release could help set Mandela free

BY ANTHONY ROBINSON IN JOHANNESBURG

AN EXCHANGE of prisoners due to take place today between Angola and South Africa could help break Pretoria's political logjam by paving the way for the release of Mr Nelson Mandela and other leaders of the banned African National Congress (ANC).

The exchange in Mozambique follows weeks of secret negotiations between the foreign ministers of six countries, including the Netherlands and France.

It entails the release of Major Wynand du Toit, captured by Angolan troops in the oil-rich Cabinda enclave in May 1985 in return, Angola will obtain 133 government soldiers captured by the South African-backed Unita rebel movement headed by Mr Jonas Savimbi.

In addition, South Africa will release two Europeans, Mr Klaus de Jonge from the Netherlands and Mr Pierre Andre Albertini from France, suspected by Pretoria of aiding the ANC.

The freeing of Major du Toit could pave the way for the release of Mr Mandela because of a pledge made by President P. W. Botha last year. At the opening of parliament on January 31 he offered to release Mr Mandela if the National Union freed two leading dissidents, Dr Andre Sakharov and Mr Anatoly Shcharansky, and Angola released Major du Toit.

Moderate black leaders have refused to join Mr Botha's proposal because they have soured on negotiations about power sharing until Mr Mandela is freed.

Release of the two Europeans will remove diplomatic embarrassments which have soured French and Dutch relations with South Africa.

Mr de Jonge was accused by Pretoria of smuggling arms for



Unita leader Jonas Savimbi: per-

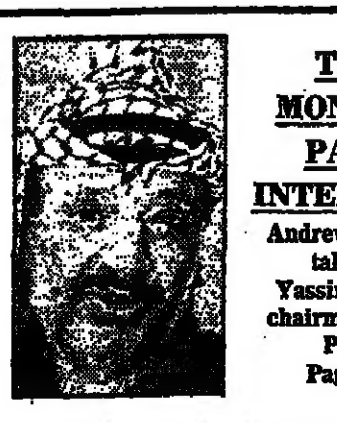
sonal charges.

Mr Albertini, a French aid worker, was jailed in the Ciskei homeland earlier this year after refusing to give evidence in the trial of alleged ANC 'terrorists'.

In addition to Major du Toit, South Africa will also release the bodies of two soldiers killed during what Pretoria describes as a reconnaissance mission aimed at investigating an alleged ANC training camp. Angola describes it as a failed sabotage mission against the US-run oil installations in Cabinda.

South Africa managed to persuade Mr Savimbi to release the captured Angolan soldiers despite the stepping up of a two-pronged offensive by Angolan government forces, backed by Cuban and Soviet advisers, against Unita positions in southern Angola.

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No SAVILLS RESEARCH ... no comment.

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OVERSEAS NEWS

Buoyant Portugal forecasts higher growth

BY OUR LISBON CORRESPONDENT

THE PORTUGUESE economy is growing so fast that the authorities have had to revise upwards their forecast for growth in Gross Domestic Product from 3.7 per cent to 4.6 per cent, the highest projected rate in Europe.

This growth is underpinned by investment growth of 14 per cent (compared with a forecast of 9 per cent), with growth in real wages of 3.5 per cent and private consumption rising ahead by 5 per cent.

Inevitably, revival of investment and consumption after the 1983-85 slump, has driven up imports. These are expected to grow 15 per cent in volume this year, compared with 10 per cent growth in export volume.

Officials are pleased that export growth is stronger than expected. It had been assumed that Portuguese industry would

fall in the face of aggressive EC competition, but it has rallied well.

A rising trade deficit would hurt the current account more, officials say, were it not for the highest ever influx of foreign exchange from tourism and emigrants' remittances and new foreign investment.

Officials expect invisible earnings to offset trade deficits and yield a current account surplus of about \$500m (£303m)—a third of the 1986 surplus, but enough to keep at bay memories of 1982 when export-led growth drove the current account \$3.2bn into the red.

Currency reserves reached \$2.5bn this month, an unprecedented level in Portugal, which used to think itself lucky to have \$300m in currency reserves.

Reserves now cover three to four months imports and hold the net foreign debt nearer to total gold reserves (\$10bn), plus currency. Gross foreign debt, once 72 per cent of GDP, is now about \$16.5bn or 45 per cent of GDP.

Senior officials stress that a large factor in the rise of private consumption is the flow of EC funds for projects co-financed by the state.

In 1987 Portugal will get \$300m for agriculture, infrastructure, new jobs and small and medium companies. The funds have stimulating consumption so that farmers and businessmen with more disposable income from higher and better production are rushing to buy durable goods. The government is worried about overheated consumption and keeping a close watch.

Meanwhile, annual average inflation in August dipped below 10 per cent for the first time in 13 years. The Government now believes it can achieve its 1987 target of 9 per cent or less, compared with 28 per cent in 1983.

Portugal's weak spot is its dependence on imported oil, the prices of which could skyrocket, pushing import costs in a rapidly-expanding economy to perilous levels.

If so, a proud government may have to do something it has been able to avoid until now: tapping a \$1bn facility the EC set aside to help with post-accession balance of payments difficulties, so far stayed off.

Everyone expected Portugal to need to draw on this facility long before now. Officials do not conceal their glee in having not yet touched a cent of it.

Pragmatic privatisation in view

Diana Smith reports on the Portuguese PM's plans for a profound reform of business

ON JULY 19, Mr Anibal Cavaco Silva and his reform-minded Social Democrats won the largest general election landslide in Portuguese history and one of Europe's largest majorities.

Mr Cavaco Silva intends to break, once and for all, with nationalisations of the 1970s, and with deep-rooted older traditions of excessive reliance by timorous private business on public subsidies. The left can no longer block radical changes to its sacred cows—the massive State-run sector, rigid labour laws and collectivised agriculture.

The prime minister spent part of the weekend telling the Financial Times, in unprecedented detail, what he wants for the public sector. Since the 1976 revolution, the taxpayer has been lumbered with 53 nationalised corporations, 500 indirectly nationalised companies and an accumulated loss in the public sector equivalent to \$700m—which is equal to about a third of GDP.

Mr Cavaco Silva classifies the public sector in three groups—public services, corporations that compete on domestic or foreign markets but are in serious difficulties, and corporations that compete on markets but are in generally good shape.

The first group—public services—will "remain public sector enterprises now and in future," he said. These are enterprises such as urban transport and rail services, corporation, and TAP/Air Portugal, the national airline.

Keeping these companies under State control does not exclude releasing a minority part of their capital in the case of companies benefiting from major technological advances, like the telephone company,

although there is no plan at present to have off any of their capital, the prime minister said.

The second group—the problem companies—have to clear up their financial situation or be restructured before the government contemplates privatising them.

"They are in no fit state to have their shares quoted on the stock market at present," he said. Companies in this situation—targets for major restructuring or sweeping financial improvements—include Electricidade de Portugal, the electricity corporation, Quimigal, the corporation for chemicals, fertiliser and base metals, Siderurgia Nacional, the national steel corporation, and Senevise, the shipyard based at Setúbal.

"We will be studying various options of how to deal with these companies. We have to look at Senevise for instance, and decide if it is worth keeping as a shipbuilding yard or repair yard, or perhaps see if some foreign buyer would be interested in it one day," Mr Cavaco Silva said.

The third group—the companies in reasonable shape—their capital can be privatised. They are competitive, they don't have financial problems and they don't need restructuring," he added.

This group includes the State-owned breweries and tobacco company, cement

manufacturers, pulp and—probably—banks. Only a minority of capital would be privatised initially. "We plan to start privatisation before the review of the Constitution," the Communist-inspired Constitution of 1976 defined the nationalisations of the year before as "unfathomable." Lawyers insist, however, that assets, not the companies themselves, were nationalised and so there is no hindrance to offering up to 49 per cent to the public at large through public offer of sale or stock exchange quotation, with reservation in some cases of part of the shares for employees of these concerns.

We can only privatise a minority of shares before the constitutional review (due next year) and, in some cases, we are going ahead with this. The process will be gradual and carefully analysed. We shan't rush onto the market with a dozen companies in one go—rather be careful about it. We have four years to get on with it," the prime minister said.

Before long, the Government will present a draft Bill to Parliament, where it holds 148 of the 250 seats, and where, in principle, the Socialists are amenable to privatisation as long as it is done carefully and case by case. The government will propose minority privatisation of efficient, competitive companies.

"After the Constitutional review when we hope the nationalisations clause will be eliminated—we can let private capital take a majority," he added.

The idea "is to pulverise capital, not concentrate it. So we must establish beforehand the limit to amounts acquired by any one body or group, and hold foreign participation,

which in principle is welcome, to a maximum of 10 per cent or so," Mr Cavaco Silva said.

Intrinsic to the streamlining of the public sector, and of private industry, is a shift in labour laws that, in the old days, made it too easy to sack a worker on flimsy grounds and after the revolution, too hard to do so on any grounds.

This led to a plethora of short contracts which hurt workers and management alike in the Prime Minister's view. Workers feel insecure and management does not invest in job training.

He wants to alter labour laws so that companies whose markets have shrunk for one reason or another can lay off workers, individually or collectively. However, the laws must never make it easy for a worker to be sacked for personal or political reasons, he insisted.

Fraising the UGT, the non-Communist trade union Federation that has been negotiating with management in the Social Bargaining Council for the past two years, Mr Cavaco Silva expressed the hope that the Communist-dominated confederation, the CGTP, would change its attitude and join the council. The Prime Minister wants to see labour law and social security packages negotiated peacefully in a tranquil climate, and he believes the population also wants an end to the labour unrest of the past.

The focus of the new mood in Portugal, the prime minister believes, is privatisation and encouragement of private investment, especially by young business people, who have "different attitudes—more innovative, open to risk and less inclined to wait about for government handouts and subsidies which solve nothing."

Danish love of cosiness overrides poll razzmatazz

BY HILARY BARNES IN COPENHAGEN

"THE CAMPAIGN'S disappeared," said a recent headline in a Copenhagen newspaper. With no fewer than 10 parties contesting tomorrow's election for the Folketing (Parliament) the campaign trail has indeed become diffuse.

Asked last Thursday what he thought was most interesting about the election campaign, Prime Minister Poul Schlüter, who has headed a four-party coalition for the past five years, promptly replied: "That it's so uninteresting." Who is better placed to judge?

The Danes do not go in for all the razzmatazz associated with elections in larger countries, which always makes Danish elections relatively low-profile affairs.

Perhaps it is best explained through a concept which is central to the Danish way of life: hygge, roughly translated as "cosiness." It pervades politics as well in a country where compromise between government and opposition is more normal than confrontation.

Hygge dictates—or perhaps it is just the sheer number of parties—that candidates rarely hold an election meeting on their own. They invite a bunch of candidates from other parties along, too, and confront the voters together.

Even television tries not to break the spell. The main half-hour evening news bulletin on the one-channel State system has resolutely relegated campaign stories to the end of the programme, rating sty-comfort for bacon pigs and other such stories as being of somewhat more import.

The distance between the political extremes in Denmark is slight. Serious, and above all divisive, debate is not the stuff of which Danish elections are made.

This has been a one-issue election campaign, should Mr Schlüter and his "four-leaved clover" (the coalition of Conservatives, Liberals, Centre Democrats and the Christian People's Party) be allowed to soldier on, or should Mr Anker, his Social Democrats in alliance with the more full-blooded socialists of the Socialist People's Party, be given another chance?

The verdict of the opinion polls is that Mr Schlüter's chances are good and that Mr Anker's are slight to non-existent.

ent. But the opinion polls cannot be counted on, as the polling organisations themselves would be the first to admit, because with nine parties already in the Folketing and 16 fighting for seats, the margin is so small that the result can easily be tipped one way or the other by the unexpected or unforeseen.

Six of the parties which do not stand a serious chance of winning seats are leftist, including four variegated Communist parties. So if half of the 5 per cent or so of the voters who are thinking of casting a vote for these outsiders switch to one of the two main socialist parties, the socialists would win.

One issue that has moved the electorate is the Government's decision to cut the budget for education and social welfare. All over the country, municipalities are holding the first readings of the 1988 budget, and everywhere the local politicians of all parties, are blaming Mr Schlüter—not without cause—for cuts in the

which it has enjoyed since 1982, but also of the tax-protest Progress Party.

Radical leader Niels Helweg Petersen has predicted that this would lead to parliamentary chaos and a new election within months.

The Greens are not to gain representation, and a Communist party, Common Cause, led by the leader of the Seaman's Union, Mr Preben Moeller Hansen, may just clear the necessary two per cent of the votes barrier as well, according to the poll.

Finally, there is Mr Preben Moeller Hansen, leader of the Seaman's Union, whose Communist party, Fælleskrus (Common Cause), could gain a couple of seats by virtue of his almost Irish gift of the gab, and Mrs Pia Kjaersgaard, the head of the Tax Protest Progress Party, whose transparent honesty some find appealing.

Both these parties want to see Denmark accepting fewer refugees, which the other parties will have nothing to do with, but which undoubtedly sounds a response in quite a number of voters.

On election night, it could be that Mr Schlüter will have to revise his view that the campaign was not interesting.

Italy to detail Gulf mission plan today

By John Wyles in Rome

THE Italian Government will today detail plans for sending naval ships to protect Gulf shipping in the face of left-wing protests and signs of distinct unease within the leading coalition party, the Christian Democrats.

The Communists, the main opposition party supported by the Radicals, and the Proletarian Democrats, have called for a full parliamentary debate and are insisting that last Friday's decision be endorsed by a parliamentary vote, although one is not required by the constitution. Catholic groups close to the Christian Democrats, meanwhile, distanced themselves from the initiative over the weekend.

The task force marks an important break with post-war Italian foreign policy which has avoided any independent commitment to a foreign theatre.

After weeks of controversy, the powerful opposition to any naval mission inside the government, led by the Foreign Minister, Mr Giulio Andreotti, was finally broken by an Italian attack on an Iraqi container ship in the Gulf. When Mr Bettino Craxi, the former Prime Minister and Socialist leader, called last Thursday for Italian intervention in the Gulf, Mr Andreotti was forced to give way.

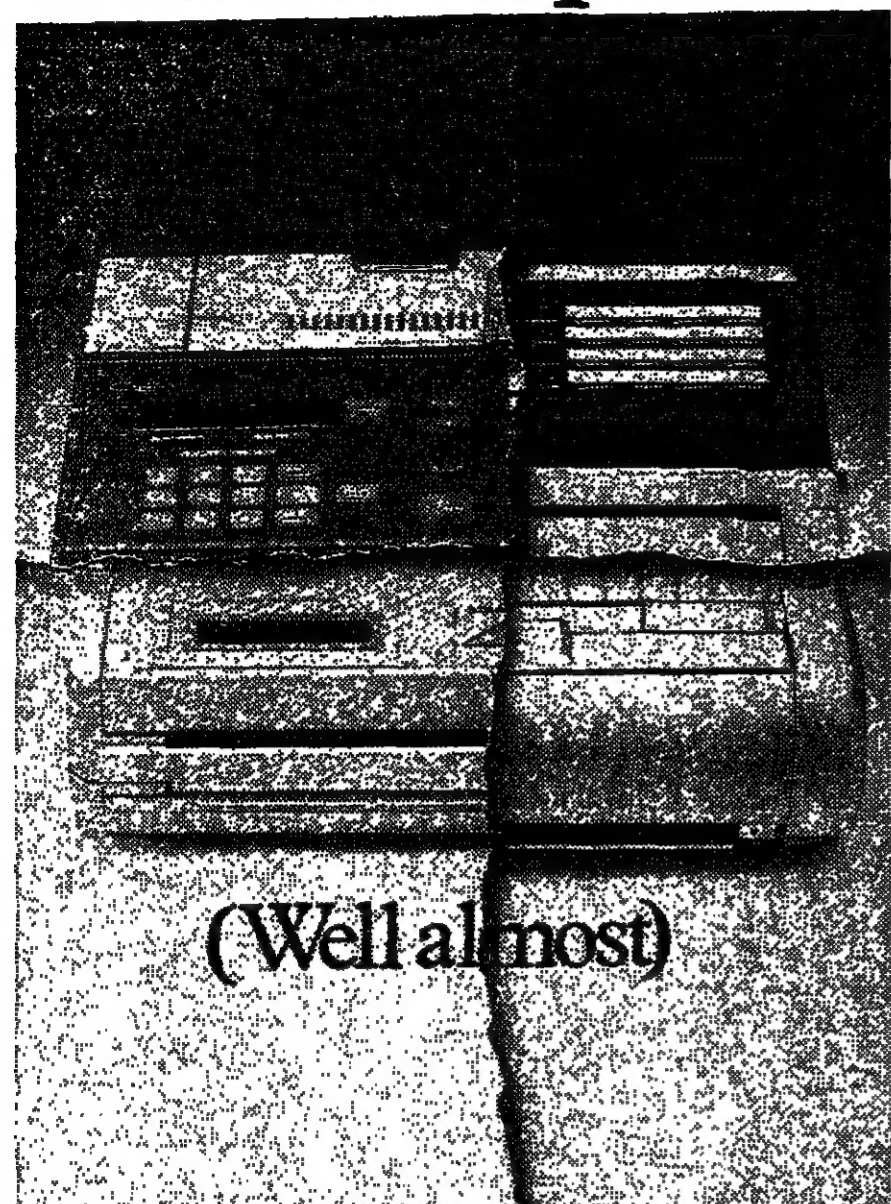
It is still not known how many ships of which type will be dispatched to the Gulf, nor what their responsibilities will be. Nor is it known if their activities will be co-ordinated with French and British forces already on station.

WORLD ECONOMIC INDICATORS

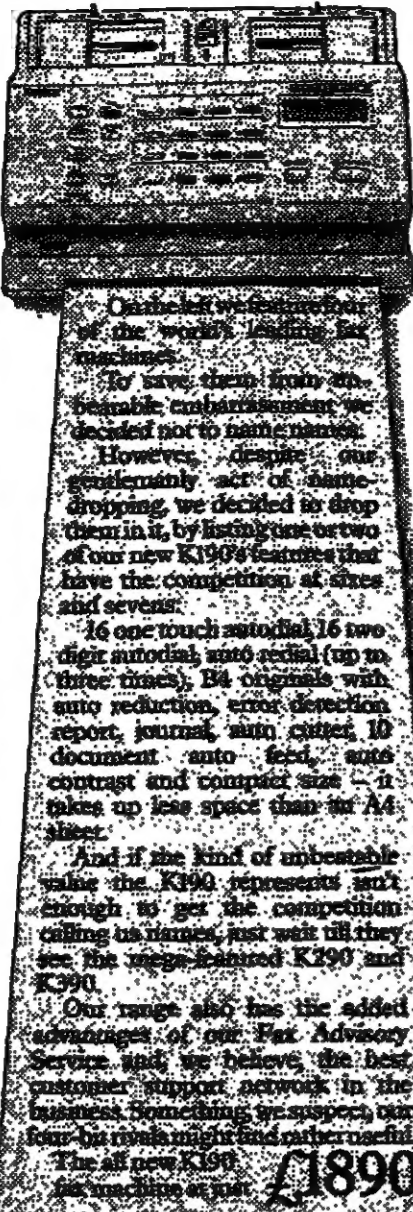
	RETAIL PRICES (1980=100)				% change over previous year
	July '87	June '87	May '87	July '86	
W. Germany	121.3	121.3	121.1	125.8	+3.7
France	167.4	167.2	166.9	167.1	+3.4
Italy	211.2	210.5	209.7	201.2	+4.9
Netherlands	122.1	122.2	122.4	121.6	+0.4
Belgium	145.1	144.4	144.4	142.2	+2.8
United Kingdom	152.3	152.2	152.5	145.9	+4.6
USA	134.2	137.4	137.4	125.9	+6.0
Japan	115.0	115.0	115.9	115.0	+0.0

Source: (except US) Eurostat

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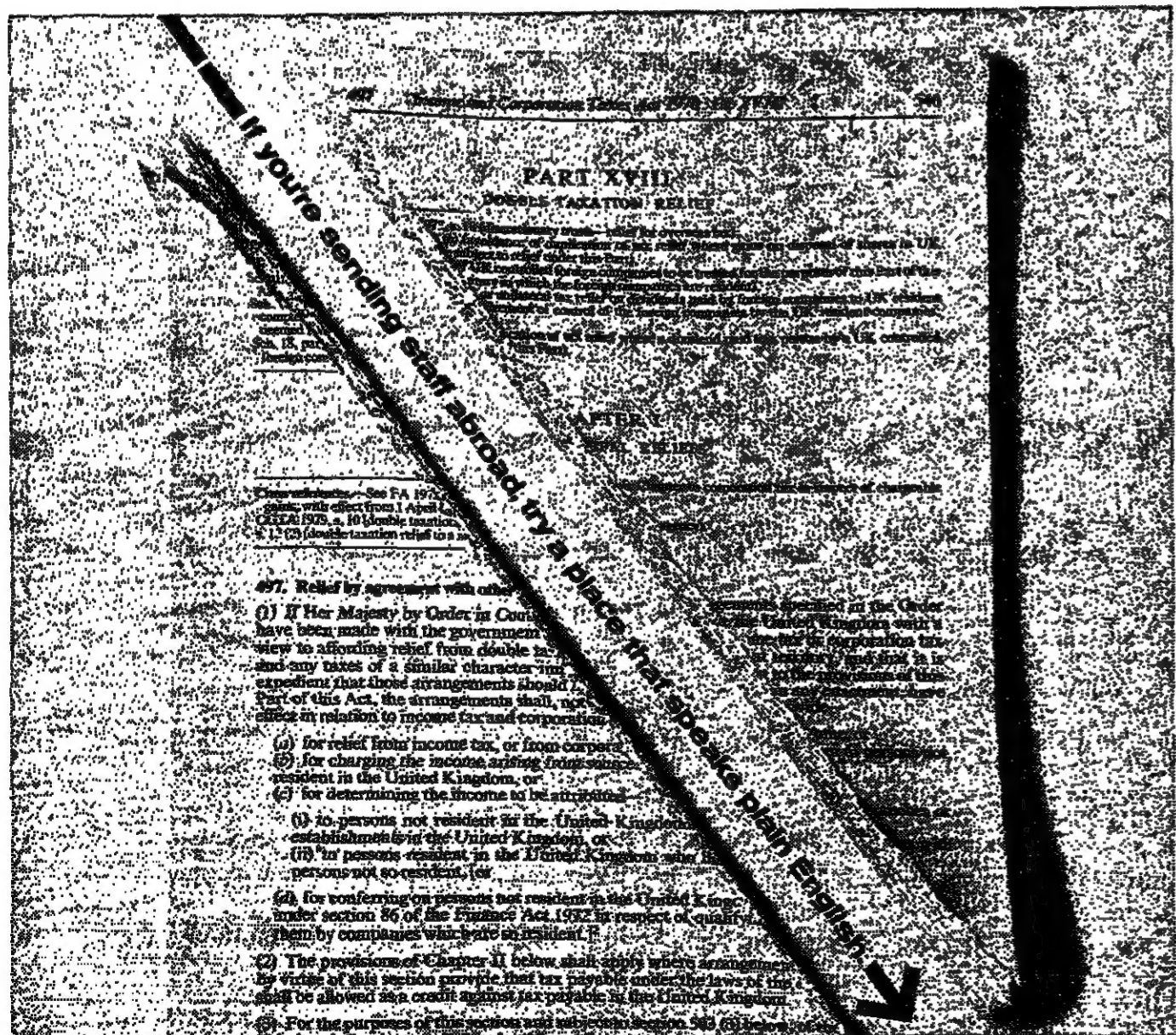
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PRESS FOR ACTION

OVERSEAS NEWS

Warheads 'no obstacle' to Pershing pact

BY PETER BRUCE IN BONN

Mr Hans-Dietrich Genscher, West German Foreign Minister, said yesterday that US-controlled nuclear warheads on 72 West German Pershing 1A missiles would "naturally" be removed when the missiles were scrapped.

Chancellor Helmut Kohl offered nearly two weeks ago to scrap the missiles, if the US and Soviet Union were to reach and carry out an agreement to destroy all their intermediate nuclear force (INF)

missiles. Moscow, however, has since poured cold water on the offer by arguing that the US warheads, and not the missiles, remain problematic.

Mr Kohl's offer was meant to ease the superpowers' INF negotiations in Geneva. Mr Genscher's remarks yesterday, to a conference of his liberal Free Democratic Party (FDP), junior partners in the Bonn coalition, mark the first public West German response to Soviet doubts about the Kohl proposal.

"The chancellor's declaration of August 26, 1987, concerning the Pershing 1As, is a logical consequence of our policies to date," said Mr Genscher. In a pointed reference to objections to the offer from the right wing of the coalition, he added, to great applause, "the declaration is binding for the Federal Republic of Germany."

"Naturally, with the destruction of the 72 German Pershing 1As, the warheads that belong to them will be removed by

the US," he said.

Mr Kohl's coalition has been driven since his offer by complaints from the Christian Social Union and its leader, Mr Franz Josef Strauss, that it was not consulted, that the 1As should not be surrendered and that their removal would leave the Warsaw Pact with far more firepower than Nato.

The CSU is boycotting coalition meetings and Mr Strauss has charged that the chancellor did consult Mr Genscher before he made his proposal public.

The foreign minister used his speech here to launch a thinly disguised attack on Mr Strauss without naming him.

"Mechanical calculations of military potential lead to more foolish arms competition. If the double-zero (the global scrapping of all INF weapons) were to fail because of the federal republic, it would not only have angered people in this country, it would have driven a deep divide between us and our compatriots in East Germany," he said.

Chadian troops take Libyan air base

By Joan Wucher King

THE Chad Government yesterday announced a major incursion into Libyan territory. Chadian troops attacked and held the Libyan air base at Maatan al-Sarra, about 100 km from the disputed border region.

This is the first time that Chad has crossed into Libyan territory, and marks a serious escalation of hostilities between the countries. In August, Chad retook the Aouzou Strip after a 17-year period of occupation by Libya.

Libya's initial response was to refer the dispute to the Organisation of African Unity and the United Nations. After a two-week pause, however, Libya began a series of deep raids in Chad, and in late August, claimed to have retaken the Aouzou Strip.

This new assault by Chad is aimed at building up a rear-guard position before its anticipated drive to take back the Strip. Maatan al-Sarra is an important Libyan military base and was a key operating point for its air force's raids into Chad throughout its involvement in the civil war there.

Chad's Ambassador to France, Mr Ahmad Allam-Mi, said yesterday that Chadian forces had destroyed 30 combat aircraft and killed or captured hundreds of Libyan troops at the base, which is known to be heavily defended. The Libyans have admitted the attack on the base, but said that it was repulsed. Ambassador Allam-Mi has indicated that Chad has no intention of holding the base, but wanted to "destroy a principal source of aggression," a reference to the Libyan bombing sorties against Chadian territory in recent weeks.

Prisoner exchange unlikely to entail release of Mandela

BY ANTHONY ROBINSON IN JOHANNESBURG

MAJOR Wyand du Toit is the key figure in the complex multinational exchange of prisoners, due to take place this morning at the airport in Maputo, the Mozambican capital. The bearded South African commando was captured by Angolan forces in May 1985, during an abortive reconnaissance operation in the Cabinda in the far north of Angola. The Angolan government believes the aim was to sabotage oil installations.

His release will not only be a diplomatic coup for South Africa—short of foreign policy successes in recent years—it could also help Pretoria break the logjam in racial politics by paving the way for the release of Mr Nelson Mandela, the leader of the African National Congress, jailed in South Africa.

His release has been demanded by moderate black leaders as the essential condition for an agreement to discuss participation in the government's proposed National Statutory Council and other bodies.

Diplomatic coup

The link between Mr Mandela and Major du Toit was spelled out by President P. W. Botha 20 months ago in a speech to parliament on January 31, 1986. He made then what seemed a bizarre offer to release the ANC leader if the Soviet Union released two leading dissidents—Dr Andrei Sakharov and Mr Anatoli Scharansk—and Angola released the then Capt du Toit.

Since then, Mr Scharansk has been released and allowed to

emigrate while Dr Sakharov has emerged to play a key role in a tolerated Soviet opposition.

The impending release of the major, and repatriation of the bodies of three South African soldiers killed in Angola, might seem to complete Mr Botha's trilogy.

New generation

It is most unlikely, however, that it will lead to the immediate release of Mr Mandela. The government is expected to test the waters first by releasing other ageing ANC stalwarts, such as Mr Govan Mbeki and Mr Walter Sisulu, both of whom have sons in the new generation of ANC leaders-in-waiting.

Their release while the army and police control the South African townships, while the country is under a state of emergency and key organisations in the United Democratic Front (UDF) and other organisations are in detention or under close surveillance, offers a reduced risk of mass demonstrations in the black townships. The inability of the security forces to guarantee orderly release, and fear of an assassination attempt by white fanatics or black political opponents, have been major factors delaying clemency for ANC leaders.

Last month, however, the forthcoming release of elderly ANC men was aired by Mr Botha in a key policy speech in parliament, when he stated that the government's previous insistence on their renunciation of violence as a precondition of release was no longer "decisive in its own right."

South Korea to prosecute strikers

By Our Foreign Staff

THE SOUTH KOREAN government has decided to prosecute 166 workers involved in violent strikes following a decision by the Cabinet over the weekend to get tough with strikers.

The group were among about 200 workers arrested on Friday when thousands of riot police raided a shipyard owned by the giant Hyundai conglomerate and a Daewoo car plant.

The decision by the Cabinet to press for prosecutions is the first sign of a new determination to assert control over the country's deteriorating labour situation ahead of the return to campus of the country's university students. There is great concern among reformers in Seoul that a coalition between the students and the workers could lead to a military intervention in politics, a move which could end last week's accord between the Government and Opposition on constitutional reform.

Prime Minister Kim Chung Yul called for stern punishment for workers involved in violent labour protests. Mr Kim said violent strikes have developed into a "workman's situation" with labourers destroying public facilities and engaging in "intolerable" violence.

Since the labour protests began more than a month ago the Government has adopted a largely "hands off" approach to labour disputes, preferring to let companies work out solutions with workers. In the vast majority of cases, which affected small-scale companies, this has worked.

But in the politically and economically sensitive conglomerates, known locally as the (ITATL) chaebol, the Government has shown a greater willingness to intervene and set tough. Officials have intervened to settle disputes and riot police have been dispatched to control strikes.

In the past week thousands of Hyundai workers in the south-eastern industrial city of Ulsan briefly seized the town city hall, set cars on fire, smashed furniture and mobilised forklifts and cranes for street protests.

Hyundai said on Saturday that its main shipyard where more than 20,000 workers have been on strike, would be closed indefinitely.

The shipyard in Ulsan said it planned to cut off power, water and food to the workers' dormitory from today.

Leslie Colitt reports on a state visit with sentimental overtones

Full honours for 'other' Germany

MR ERICH HONECKER, East Germany's leader, is preparing for the trip of a lifetime, although it will only take him 475 km south-west of East Berlin to the West German capital of Bonn.

Mr Honecker's state visit to Bonn on September 7 will mark a high point in the astonishing career of the miner's son from the Saar, in western Germany, who in 1971 became the leader of East Germany.

When the visit to West Germany was first planned three years ago the ruling Christian Democrats under Chancellor Helmut Kohl did not even want Mr Honecker to set foot in Bonn. They were afraid his presence there would detract from West Germany's official position which recognises the existence of two German states but within one nation.

In the event President Honecker was presented from going because of Soviet opposition to West Germany's decision to allow US medium-range missiles on its territory. In the meantime much water has flowed down the Rhine and Elbe rivers and Mr Honecker will be received with full honours in Bonn almost like any other visiting chief of state.

Almost, but not quite. Every step in the President's five-day visit to Bonn, Düsseldorf, Essen, the Saarland, Trier and Munich will be minutely recorded by the official East German media for the benefit of the 17m East Germans at home. The intended message will be clear: West Germany has finally accepted the German Democratic Republic as an equal German state.

Few Germans, East or West, would have dreamt in August 1961 when the Berlin Wall was built that the man in charge of that incredible operation, Mr Erich Honecker, would one day be welcomed in Bonn as the respected leader of the "other" Germany. But the bitterly resented Wall which split Germany through the heart of its former capital, also served to jolt West Germany into negotiations with East Germany shortly after Mr Honecker came to power.

Their "basic relations" treaty and the four-power Berlin agreement in 1972 led to the establishment of formal relations between Bonn and East Berlin. Although their embassies in Bonn and East Berlin are still called permanent representations, East Germany seems prepared to wait until time wears away Bonn's reservations.

Yet there is no denying a

special relationship exists between the two Germanies. Even Mr Honecker, who continues the policy of ideological demarcation toward West Germany begun by the late Mr Walter Ulbricht in 1960, repeatedly speaks of the "special responsibility" of the two German states to maintain peace.

The white-haired Mr Honecker, who turned 75 this month to an enormous outpouring of devotion in the official East German media, is a product of the German Communist Party of the 1930s. He is ideologically rigid and unswervingly loyal to Moscow.

Thus Mr Honecker cracked down on dissenting writers and artists in the late 1970s, triggering an exodus of talent to the West. His authorities for years refused to permit more than a trickle of East Germans to emigrate to West Germany.

But in a change of tack, East Germany in 1984 allowed a record 40,000 citizens to leave permanently. A year earlier the East German leader started the Bonn government by receiving Mr Franz-Josef Strauss, and his imprisonment by the Nazis steered him ideologically. But he is an avid viewer of West German television—along with most of his subjects—and has cultivated his ties with the

THE Soviet Communist Party daily, Pravda, on the day before East German leader Erich Honecker visits West Germany, said yesterday that Bonn should fully respect East Berlin's independence, Reuters reports from Moscow.

"The visit has a working character. It became possible thanks to the positive changes in the international situation which are taking place under the influence of the

peace initiatives of the socialist countries," Pravda said.

"Political realities demand that Bonn should throw away the ballast of obsolete ideas and unconditionally build relations with East Germany as international law envisages. This means full mutual respect of independence and sovereignty, territorial integrity and non-interference in internal affairs."

part of the war in what he called a "suicide patrol" repairing the roofs of Berlin during Allied bombings and disposing of unexploded bombs with his bare hands. An East German writer who knows Mr Honecker said the experience made him "abhor prisons and war."

Undoubtedly both Mr Honecker's childhood in the economically depressed Saar and his imprisonment by the Nazis steered him ideologically. But he is an avid viewer of West German television—along with most of his subjects—and has cultivated his ties with the

Helmut, which he last saw in 1948.

When Mr Honecker arrives in the Saarland, he will be given a rousing welcome in his birthplace of Wiebelskirchen by a drum and shawn band. As a young man he was a drummer in one of the bands which accompanied miners during their demonstrations and was appointed an honorary member of the Wiebelskirchen marching band in 1973.

It is sentimental ties like this to the Saar, where his sister lives, which strike an emotional chord in Germans, East and West.

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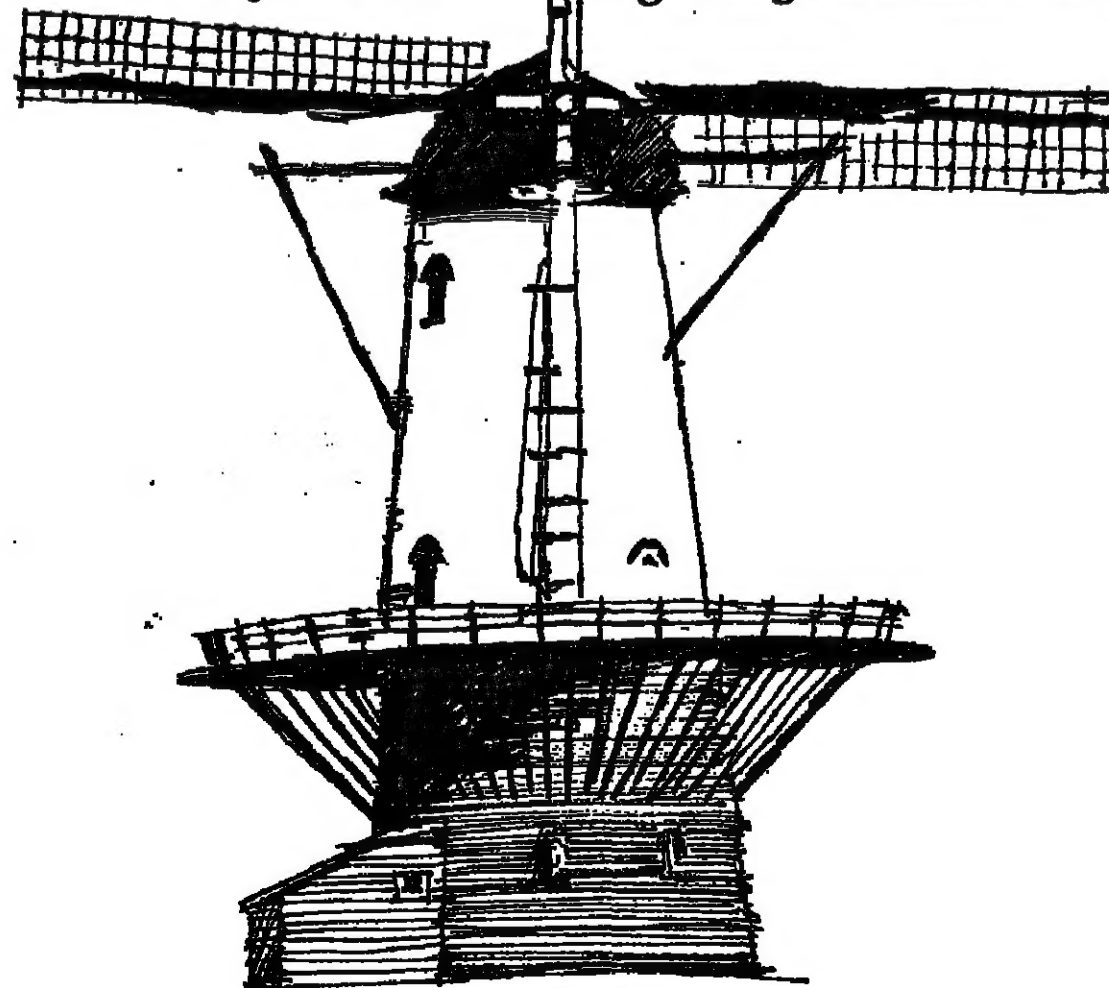
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OVERSEAS NEWS

Gandhi opponent sets out to extend influence

BY JOHN ELLIOTT IN NEW DELHI

INDIA'S former finance and defence minister, Mr Vishwanath Pratap Singh, who is trying to topple Mr Rajiv Gandhi from his position as Prime Minister, yesterday drew crowds of tens of thousands of people in rural areas near Bombay and called for Mr Gandhi's immediate resignation. The meetings in Bombay's state of Maharashtra were significant because they mark an attempt by Mr Singh, who has built up substantial political support and popularity in north India, to extend his influence to other areas, including rural farming communities where there is growing discontent about government policies.

Election call

Before he left for the meetings, Mr Singh said Mr Gandhi should resign immediately because he had "lost the confidence of the people" through his handling of corruption allegations over a \$1.4bn Bofors gun contract. He would have to go "permanently" if it was found that he, or his friends or relatives, were involved. Mr Singh said: "There is concrete proof of corruption — Bofors has said that Rs 500m was paid, that is proven. And the way the Government has behaved gives the impression there is something to hide." Because of this, Mr Gandhi should resign, or call a general election, or take "drastic action" publicly against those who had received the money.

The pressure on Mr Gandhi is building up to such an extent that there has been discussion recently among politicians and in some Indian newspapers

about whether he might step down, even if only temporarily, until the Bofors situation is resolved by current inquiries in Sweden and India.

Although there is no immediate sign of this happening, the man mentioned as a possible replacement is Mr Narayan Dutt Tiwari, Finance Minister. He is a loyal elder figure in Mr Gandhi's Congress (I) party and has a strong base in the politically significant northern state of Uttar Pradesh.

The politics of this state have become turbulent in recent weeks because it is also the home base of Mr V. P. Singh who is using it as the centre of his campaign.

Meanwhile Mr Gandhi, who is preparing a Cabinet and party reshuffle to try to rebuild confidence in his administration, is continuing to run into serious political problems.

Tax raids

Raids by tax enforcement officials last week on offices around the country of the Indian Express newspaper, which is leading the campaign against him, have been widely condemned for being politically unwise as well as for being an attack on press freedom.

The head of the ruling Congress (I) Party in the Uttar Pradesh said yesterday he had resigned to serve on a committee investigating alleged bribes in an army defence contract. Reuter reports from New Delhi.

According to the Press Trust of India, Mahabir Prasad said that he had not yet heard from Mr Gandhi whether his resignation would be accepted.

Barbara Durr assesses Mario Vargas Llosa's tilt against bank nationalisation in Peru

A literary lion growls at State power

MARIO VARGAS LLOSA, Peru's best-known novelist, has become an overnight political sensation. He has taken the helm of a conservative movement opposed to President Alan Garcia's proposed nationalisation of private financial institutions and, in the process, revived a near-moribund right wing.

Tens of thousands of mostly middle-class Peruvians have flocked to hear him at mass rallies in the capital and two provincial cities. His message, elegantly wrapped in literary imagery, is that the bank nationalisation would be the thin end of the wedge for totalitarian control of Peruvian society.

"This measure can corrupt and destroy this democracy. This is a fragile democracy in a country with enormous social and economic differences, a country without democratic traditions, where institutions are only starting to become democratic," Mr Vargas Llosa said in an interview.

He believes that the concentration of financial power in the hands of the Government would give it the capacity to "impose its will on everybody." For instance, the media cannot survive as independent media if the Government has total control of credit. Without a genuinely free press, the writer believes, Peru cannot have free elections.

Many accuse Mr Vargas Llosa of using loosely absolute definitions of freedom and democracy. Mr Julio Cotler, a well-known sociologist, for example, asks "What freedom is he talking about? The freedom of the poverty-stricken to choose where they can die of hunger?" Others suggest the author has lived abroad too long—his works are widely translated in the US and Europe—and is out of touch with Peruvian reality.

Mr Vargas Llosa's message

that the Government cannot be trusted has impressed many in Peru, where the State bureaucracy is notoriously inefficient and corrupt. His interpretation of the president's proposal has pushed the political debate well beyond the nationalisation issue itself and helped polarise opinions. One leading daily paper said that the fundamental question is: "What kind of society do we want?"

Mr Vargas Llosa's answer is one of individual freedom, a free market and as little state control as possible. He says Peru must avoid becoming like Mexico, where an "ogre State" dominates. Many commentators, on the left and right, have suggested that the Apra, the ruling party, intends to become as pervasive in Peru as the PRI is in Mexico.

Impassioned

President Garcia, in contrast, sees the State as the agent of social change, to favour the poor. If greater State control is required, so be it, at least while his Apra is in power.

Mr Vargas Llosa's warning about State versus society, and Mr Garcia's impassioned rhetoric about rich versus poor, touch deep feelings in distinct parts of Peru's profoundly divided, multi-cultural society.

Mr Cesar Rodriguez Rabanal, a prominent psychoanalyst who has worked in social psychology, says the current debate threatens to upset Peru's pseudo-equilibrium. "The minority who have something to lose feel their privileges are artificial and fragile, because they are based on deep social inequalities. Any change is feared because it may bring down the whole structure," he said.

Privilege is concentrated among those considered "white," mainly of European descent. The vast majority, who are poor, are mainly indigenous people whose ancestors were



President Alan Garcia: Society must change

conquered by European invaders.

The buffer culture of mixed-race people has grown enormously in recent decades, but Mr Garcia is the first mixed-race person to be elected president, and he is determined to break the economic dominance of the white elite in Lima, the capital, and to integrate better the various elements of Peruvian society, so as to favour the poor.

Mr Mirko Lauer, one of the country's top editorial commentators, says that, despite the country's economic problems, Mr Garcia will win the current battle because he is addressing "the political demands of the majority — identity, race and social justice—the things that produce the great Peruvian rage."

This potentially explosive social anger shapes the ideological core of Peru's fanatical guerrilla group, Sendero Luminoso (Shining Path). In its view, the white society of the capital,

and that State that has preserved its dominion, must be destroyed before Peru can advance as a nation.

The Government has tried to point Mr Vargas Llosa as a defender of upper-class privilege — a label the novelist vehemently rejects. "I am not defending the bankers. I am not a banker and I don't own a single share in any kind of enterprise, here or abroad." He argues the State is likely to discriminate against poor Peruvians more than the upper class does now.

"If this measure had been socially oriented in a proper way, and the idea was to demystify the ownership of the banks, limit the number of shares, I would have been absolutely in favour. Democratising of property ownership is what we need in Peru," he adds.

Senior government advisers say that the Vargas Llosa phenomenon is likely to be short-lived. They concede that he has regained the substantial ground lost by the right and the centre during the last government, led by President Fernando Belaunde's Popular Action party. But the thrust of Mr Vargas Llosa's campaign has been directed at influencing the Senate's debate of the nationalisation bill. Once that chamber has passed the bill—which is expected today—and the middle class understands that the measure has a minimal effect on its interests, the stir will die down, one adviser predicted.

Pragmatic bankers have already begun conversations with the Government on indemnification and future investments.

Political observers estimate that, despite the current outpouring of middle-class fears, the conservative parties will find it difficult to win more than their traditional third of the vote in the next elections.

Moreover, Mr Vargas Llosa's somewhat embarrassing evidence of the fact that

established conservative politicians have not nearly his drawing power. He is charming and eloquent, and attractive because of his independence from any political party. However, he vows he will not run for president in 1970 and that he does not want at all to be a politician.

"I am a writer. I love my vocation," he says. He was correcting the proofs of his 20th book when he felt compelled to hurl himself into politics. He is uncomfortable with what the political spotlight has meant for his personal life.

Phone threats

He and his family have received numerous threatening phone calls and he has been forced to put tight security around his luxurious cliff-side home overlooking the Pacific.

He finds distasteful, too, the ruling party's campaign to dismantle the ownership of the banks. It has run a multitude of television and newspaper advertisements to denounce him as a political opportunist who once supported Gen Juan Velasco, who ruled from 1968 after a military coup, till 1975.

Mr Vargas Llosa, who once considered himself a leftist, admits that he supported some of Velasco's measures, such as land reform, but he is also on record as a critic of the military's takeover of the press.

He points to the campaign against him as evidence of how the Government could censor and financially manipulate any who dare to criticise. In England, where he spends three to four months every year, "there is a sense of fair play; here there is none. All the dirty tricks are used."

Asked if this experience will lead to another book, he says: "For a writer, all experience is good, and he experiences can be particularly useful." He laughs.

Greeks 'can expect rise in income next year'

By Andriana Terodiconou in Athens

GREEK WORKERS can expect an increase in real disposable income in 1988 through pay rises, tax cuts and special productivity bonuses, Mr Andreas Papandreu, the Prime Minister, announced on Saturday.

The eagerly-awaited announcement was the highlight of the Prime Minister's annual state-of-the-economy speech launching the International Trade Fair in Salonika.

The announcement on incomes signalled the partial relaxation, but not the end, of an economic stabilisation programme launched by the Government two years ago with the aim of reducing inflation and Greece's domestic and external deficits.

The programme hinged on a virtuous circle, which will have reduced real average earnings by a cumulative 10 per cent by the end of the year.

Mr Papandreu warned, however, that in lifting the wage standard legislation and restoring collective bargaining, which has been suspended for two years against strong protests from both left and right-wing trade unions, the Government still expected "a responsible attitude" from the representatives of the various social classes "to avoid excessive wage increases which would jeopardise the gains of the past two years."

In 1986, helped by external factors such as the sharp fall in oil prices, the authorities succeeded in reducing inflation to 17 per cent from about 28 per cent the previous year. The net Public Sector Borrowing Requirement was trimmed to 14 per cent of Gross Domestic Product from 18 per cent in 1985, and a current account deficit of US\$1.7bn (£1bn) from US\$3.3bn.

A further improvement, though somewhat short of the target of 10 per cent inflation, a PSBR of 10 per cent of GDP and a current account deficit of US\$1.25bn, is expected this year.

A key theme of the Prime Minister's address was the need for a concerted drive to make the Greek economy more competitive "through the exercise of inventiveness and business enterprise."

Irish energy minister hits at Sizewell plan

By Hugh Carnegie in Dublin

REPORTS THAT THE Irish Electricity Supply Board (ESB) has contracted some work on Britain's new nuclear power plant at Sizewell in Suffolk has provoked an angry reaction from Mr Ray Burke, the energy minister, who is a strong opponent of the British nuclear industry.

An embarrassed Mr Burke said it was "totally unacceptable to me, to the point of incredulity" that the ESB had accepted a contract to design and draw steel support structures for an ancillary building at Sizewell in conjunction with a Dublin firm.

He had ordered an investigation into the matter. "I can assure the people of Ireland that no Irish state agency will become party to the furtherance of the British nuclear industry in any shape or form," he declared.

Mr Burke is due to meet Mr Cecil Parkinson, the British Energy Secretary, on September 16 to press his objections to Sizewell and other British nuclear plans, notably Sellafield on the Cumbrian coast directly opposite Ireland, which the Irish government wants closed.

There is widespread concern in Ireland about British nuclear plants, a factor which could complicate proposals for an electricity interconnector across the Irish Sea which, if ever built, would mean nuclear-generated power coming into Ireland.

Kabul timetable on Soviet withdrawal

THE Moscow-backed government in Afghanistan will present a proposed timetable for the withdrawal of some 115,000 Soviet troops when United Nations peace talks resume on Monday, according to Western and East bloc, Reuter reports from Geneva.

Fixing timings for withdrawal of Soviet troops is the one unsettled item in a four-point UN-sponsored plan to end the Afghan war. Soviet troops entered Afghanistan in December 1979 to prop up its communist government.

Differences between Kabul and Pakistan over a Soviet departure narrowed during talks in March.

Polish reform group takes step forward

BY CHRISTOPHER DOMINSKI IN WARSAW

A NEW independent group, the Economic Society, which aims to foster the ideals of private enterprise and market oriented reforms, has taken another step towards official registration in Warsaw.

Over 800 people, many of them small private business owners from all over the country, but some also from the state sector and co-operative enterprises, crowded into a lecture theatre at Warsaw's agricultural academy for a founding meeting.

A similar group in Krakow has been formally registered by the authorities and previous official statements strongly suggest that the Warsaw society will also be successful.

The government has dithered since last January over whether to give the go-ahead to the group which contains quite a few prominent names from Solidarity, the banned trade union, while the society's free market commitment means that the decision to recognise the group marks a significant ideological concession by the authorities.

The society aims to lobby for the private sector and speakers at the meeting, held last Friday, made it clear that they wanted pressure put on the government to liberalise the economy.

"There really is no need to design any new formula for the economy," Mr Alexander Paszyński, a former journalist and leading light of the society, told the meeting. "All that has to be done is to restore well-tried mechanisms once rejected by the socialist economy."

But it was evident that the organisers want to steer clear of politics and concentrate on trying to improve conditions inside Poland by encouraging

the entrepreneurial spirit in the private as well as the dominant state sector.

Non-farming private business at present produces around 5 per cent of the national income with over 400,000 small, mostly family-run businesses. The Economic Society estimates that around 100,000 private businessmen and large-scale farmers are potential members.

Friday's meeting is also a turning point of sorts as it marks a drawing away from the mainstream Solidarity opposition of its more right-wing elements who are ready to play down demands for democratisation in the hope of winning changes in the economy.

"We are not Jacobins and the authorities know that," Mr Janusz Korwin Mikke, an avowed liberal economist, told the meeting.

This aspect may well have influenced the government in finally agreeing to the initiative as well as the fact they gain credibility by recent official pledges that market oriented reforms will now be speeded up.

Polish police broke up a march of about 3,000 people who protested yesterday in Miedzyrzecz, western Poland, against plans to dump nuclear waste in the area, witnesses said.

At least three men were dragged away by the police at the end of an hour-long march when demonstrators responded to calls to disperse by sitting down in a square in the town centre.

A final decision on plans to dump waste from East Bloc nuclear power plants in former World War II bunkers in the Miedzyrzecz lakes region is expected soon. It has been stalled by previous protests by local residents.

Czech officials warned on economic changes

CZECHOSLOVAKIA'S Prime Minister Lubomir Strougal has warned Communist officials against dragging their feet on economic reforms which he described as the most far-reaching since the party took power 40 years ago, Reuter reports from Vienna.

Addressing a Prague rally, Mr Strougal described as "absolutely inadmissible" any attempt to block enterprises from gaining independence as provided under a bill proposed in July.

"The planned changes will be the biggest intervention in the running of the economy since February 1948," he told the Miners' Day gathering, according to a report by the official Ceteka news agency.

The speech came as part of what Western diplomats in Prague saw as an intensified effort by the Czechoslovak leadership to show support for reforms by Mr Mikhail Gorbachev, the Soviet leader.

Czechoslovakia has moved to revive the sluggish economy by proposing greater business autonomy and some private

enterprise under the measure now under debate. Reform of agricultural co-operatives was proposed last week.

It was "absolutely inadmissible if attempts are being made to prevent directors and workers from giving openly their opinion on the question of independence of their enterprise," Mr Strougal declared.

Hundreds of Austrian and West German demonstrators blocked two border crossings into Czechoslovakia for an hour yesterday to protest against Prague's plans to build a new atomic power plant, Reuter reports.

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OVERSEAS NEWS

EC seeks chemicals cut at ozone layer meeting

BY DAVID FISHLOCK IN LONDON

THE EUROPEAN Community is calling for a freeze on the manufacture of chlorofluorocarbons (CFCs) at 1986 levels of production, followed by a cut, perhaps of 20 per cent, in two years' time.

The call will come at the United Nations Environmental Programme meeting in Montreal, starting today, which will debate the convention for the protection of the ozone layer, drawn up in Vienna in 1985.

An EC attempt in 1980 to put a ceiling on production was successful in so far as world production never got near the limit set. But evidence has been found of continuing damage to atmospheric ozone by CFCs.

The chemicals are used widely as aerosol can propellants, as refrigerants for food storage and transport, in air conditioning, electronics manufacture and the blowing of plastic foams.

The EC includes seven nations which produce CFCs and is acting as spokesman for all seven. Other

major producers include the US, Soviet Union, Japan and Canada.

The Montreal meeting is expected to be highly contentious, both technically and diplomatically, since some nations will see controls on CFC production as an attempt to hobble their industry.

In the US, the ozone layer has overtaken acid rain as the environmental issue most exercising Congress and the public. But there is also a strong US lobby defending CFCs, and British officials say the US Government has been volatile in its support for curbs proposed by the EC.

The Japanese, who use CFCs extensively as solvents, and the Soviet Union have both been cool about curbs. Any protocol agreed between current producer nations could open opportunities for non-signatories to encourage "CFC havens," from which CFCs could be exported.

To prevent this, manufacturers with CFC technology would have to be prevented from allowing its use by non-signatories.

CFCs are very unreactive and safe chemicals and are proving particularly hard to replace in association with food. Any alternative is expected to need seven to 10 years of toxicity testing before it is rated as safe as CFCs, for example in aerosols or take-away food cartons.

ICI, which with Rio Tinto Zinc is one of Europe's two main manufacturers of CFCs, says it is spending over £1m (\$1.65m) a year on research and safety testing into alternatives.

The British Aerosol Manufacturers Association says it fully supports the proposed initiative to limit CFC production by stages over the next decade. More than a third of the aerosols made in Britain use no CFCs, it says.

But it claims that growth in other uses has "already negated much of the savings made by the aerosol industry" since 1985.

Total EC sales of the main CFCs increased by 2.5 per cent between 1976 and 1985, according to the association.

US-Hanoi 'deal' on missing servicemen

THE US will officially encourage charitable aid for Vietnam in return for Hanoi's help in uncovering the fate of American soldiers still missing from the Vietnam War, the New York Times said. Reuter reports from Washington.

Quoting unnamed US officials, it said the agreement resulted from a visit to Vietnam last month by a delegation led by retired Gen John Vessey to discuss the missing servicemen.

While the agreement falls short of Hanoi's request for economic aid, it is the first time Washington has agreed to provide Vietnam with anything in return for help over the missing servicemen, the newspaper said.

Two US doctors and the head of an international charity visited Hanoi last week as an official US delegation, the newspaper added.

Based on findings from that visit, Washington will issue a report detailing Vietnam's humanitarian needs. The Reagan Administration will also license private organisations to provide charitable relief.

In return, the Administration expects greater co-operation in solving the issue of the more than 2,400 US servicemen still listed as missing from the Vietnam War.

The US State Department had no immediate comment on the report.

Robert Gibbens on the prospects after the Quebec City meeting Francophone summits still on trial

FOR French President Francois Mitterrand the three-day second Francophone summit in Quebec City last week was another valuable forum for dialogue between the developed and the developing nations of the world.

Many of the African nations at the summit—their use of French confined mainly to governing elites—have more urgent needs. Many are desperately poor, with annual per capita incomes of not much more than US\$250. Some come from the African Sahel, where overgrazing and deforestation are contributing to the rapid advance of the desert.

The immense gap between the two Francophone groups was even more obvious at Quebec City than that between the rich and poor of the Commonwealth of former British colonies.

The main items on the agenda of this Francophone summit were agricultural help, energy, communications and culture, the level of world commodity prices and debt repayments. A lot of hard work had been put in by the preparatory team but how effective the new aid programme may prove in countries so different as Zaire, Egypt, Chad and Vietnam is difficult to estimate.

But the presence of Mr Mitterrand and the leading role taken by Mr Brian Mulroney, the Canadian Prime Minister, and Mr Robert Bourassa, Quebec's President, may well

The immense gap between rich and poor nations was more obvious than at meetings of the English-speaking Commonwealth'

have given the Francophone summits an outside chance of survival in parallel with the Commonwealth summits.

The third Francophone summit will take place in Dakar, Senegal in 1989. Hopefully, a permanent Secretariat will be in place by then so that the summits will really be able to win recognition as an important forum of political and economic co-operation as Mr Mulroney hopes. A series of Francophone games on the lines of the Commonwealth Games is also planned.

The second summit had its bizarre moments. One government leader found his picture missing from his hotel suite and Jean Baptiste Bagaza, President of Burundi, became the victim of a coup d'état in his absence.

Much was made of the human rights records of many member countries and Amnesty International made it known that 31 of them had been cited for serious violations.

But large-scale confrontations were avoided and Mr Mitterrand spent the final day of the conference visiting a French-speaking community in New Brunswick, still Canada's only officially bilingual province.

Some of the co-operation programmes proposed were of doubtful benefit to most of the 37 member countries. One proposed access to TV3, the international French-language tele-

vision network now widely available in Europe. But less than 10 per cent of the people living in the member states have access to television.

The priority for the African states, especially in the Sahel, is for agricultural help and funds to improve basic infrastructure. But international organisations working there for decades have not yet been able to change local government policies that encourage deforestation and drought.

Canada's offer to write off CS\$25m in debts from seven of the African countries was a useful gesture, as was Quebec's suggestion of a formula to gear Third World debt repayments to the level of world commodity prices.

But the question remains whether Francophone summits can seriously help solve the daunting difficulties of most of the member states, particularly those in Africa, which need

extensive help in public health, food production, education communications. To be effective in raising basic living standards new aid programmes must work with a host of international organisations.

If the Francophone summits are to survive, Canada will clearly have to play a leading role, along with France. Dakar will be a very different venue from Quebec City or Paris.

At the first summit in Paris in 1985 the Canadian and Quebec Governments were constantly at odds over protocol.

In Quebec City last week all was sweetness and light between Mr Mulroney and Mr Bourassa, the main architects of the Meech Lake agreement providing a formula for Quebec's acceptance of the Canadian constitution.

For the first time Quebec will be officially recognised as a "distinct" French-speaking society, though responsible for the survival of its English-speaking minority.

Both Mr Mulroney, the federal Conservative leader, and Mr Bourassa the Quebec Liberal leader, were at pains to show that "distinct" means that Quebec will co-operate within the framework of the Canadian Federation and that Meech Lake will not lead to the secession of Quebec as Pierre Trudeau, the former Prime Minister, has warned.

Swedish PM makes US visit

BY KEVIN DONE, NORDIC CORRESPONDENT, IN STOCKHOLM

SWEDISH Prime Minister Ingvar Carlsson is to visit the US this week, the first official trip to Washington by a Swedish leader for 35 years.

In the years since the former Swedish Prime Minister Tage Erlander visited President Harry Truman, relations between Washington and Stockholm have often been strained, not least during the premiership of Mr Olof Palme.

Mr Palme's outspoken criticism of US policy in Vietnam chilled relations, and for several periods at the beginning of the 1970s there was no US ambassador in Stockholm.

Mr Palme, who was assassinated by an unknown gunman in Febru-

ary last year, led a torch-light demonstration in Stockholm alongside North Vietnam's Moscow ambassador in 1968 when he was a cabinet minister. Further strain was added at the end of 1972 when Mr Palme compared the USA bombing of Hanoi with atrocities such as Guernica, Sharpeville and Treblinka.

More recently trade relations have come under pressure as US concern grew that Sweden was being used as a conduit for the illegal export of US high technology to the East Bloc and two leading Swedish multinational corporations were fined by the Swedish authorities.

Tougher export regulations were introduced by the Swedish Government last year, however, calming US anxiety and supporting diplomatic activity aimed at re-starting a top level political dialogue.

Mr Carlsson's visit — he meets President Ronald Reagan on Wednesday — will balance that made to Moscow last year, one of his first foreign trips after taking over the premiership.

The absence of bilateral problems between Sweden and the US means the agenda is likely to be dominated by international questions, including southern Africa, the Middle East and Central America.

SHIPPING REPORT

Tanker charter rates tumble

BY LYNTON McLAIN

TANKER OWNERS found increasing difficulty towards the end of last week in finding charterers for their largest vessels, and charter rates tumbled.

This was in sharp contrast to recent activity in the tanker charter markets, especially in the Gulf, where demand for large tankers had been buoyant despite the attacks on shipping.

This recent increase in activity was attributed by Galbraith's, London ship-

brokers, to the increase in production and supply of oil by several oil exporting countries. The increase was seen to be above that permitted by the Organisation of Petroleum Exporting Countries.

Tanker charterers followed suit and kept their storage capacities high. This led to some instability in the price of oil, amid plenty of oil on shore and in transit, with the result that charter rates have fallen.

An ultra large crude carrier

accepted a rate of Wordscale 35 for a voyage between the Gulf and the US. A few oil cargoes appeared from the Middle East to the Red Sea and tankers have been traded in the middle-to-low Wordscale 40s. Galbraith's suggested at the weekend that rates might have "bottomed out for the time being."

Nevertheless, it was too early for tanker owners to be able to talk of a revival in charter rates.

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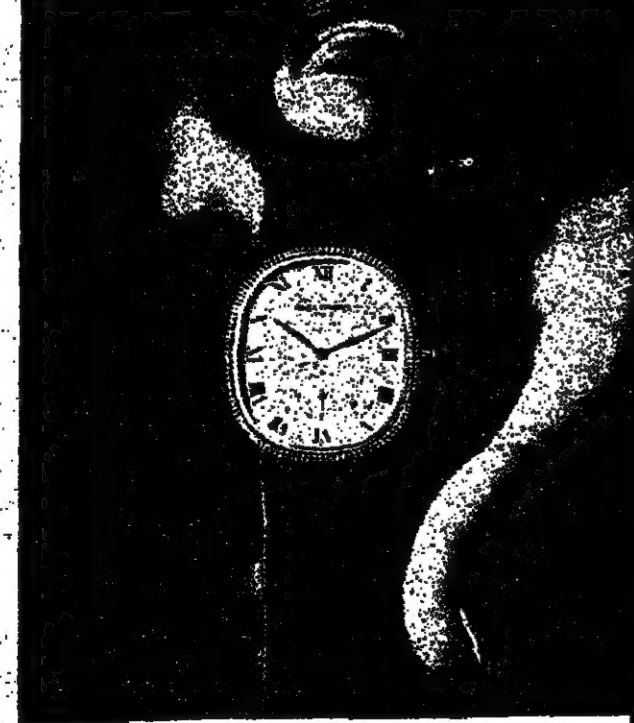
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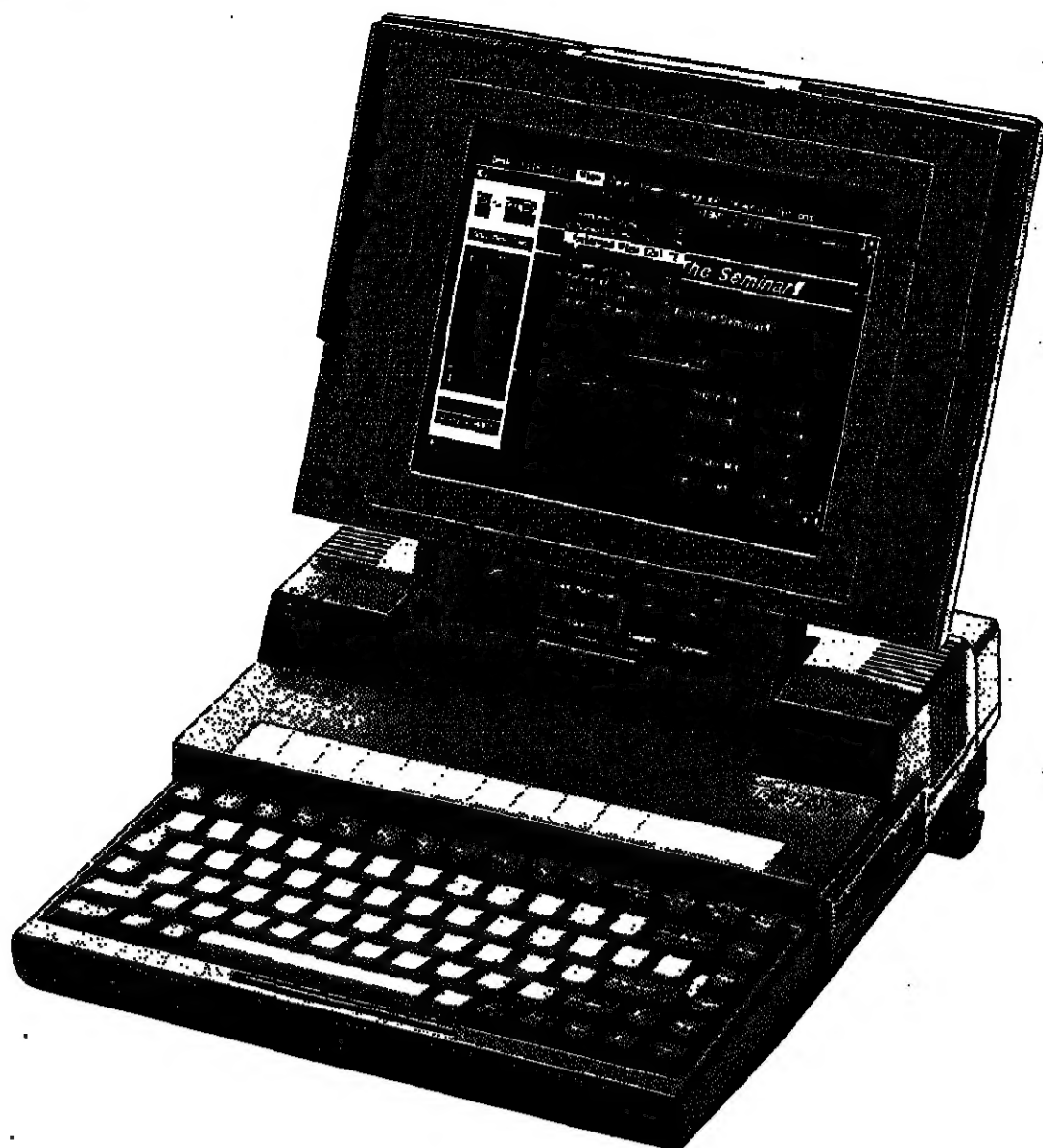


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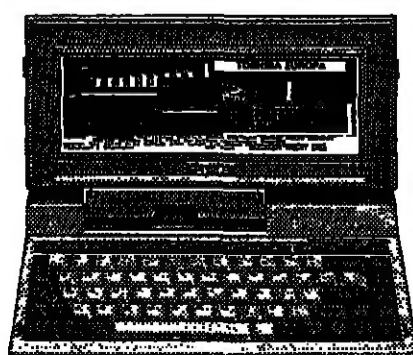
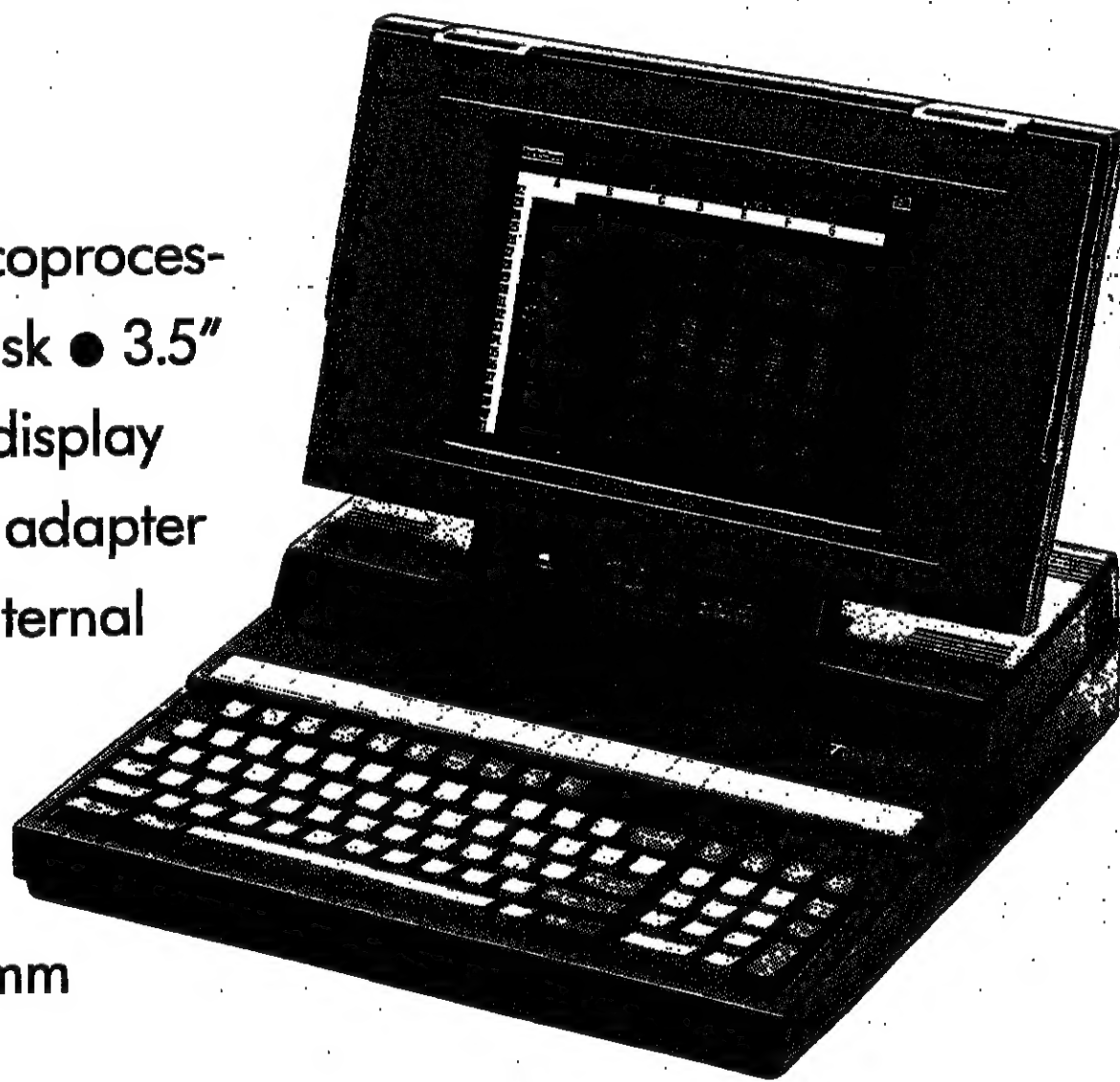
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UK NEWS

Energy Secretary set to discuss details of electricity privatisation

BY MAX WILKINSON, RESOURCES EDITOR

MR CECIL PARKINSON, the Energy Secretary, is ready to meet Cabinet colleagues later this month to discuss the general shape of his plans to privatise the electricity industry.

The main argument will centre on whether the Central Electricity Generating Board (CEGB) should be sold as it stands, or whether the national high voltage transmission grid should be privatised away from it as a separate company.

The second important question is whether the 12 area distribution boards should be privatised separately or brought together in one national distribution company. A third option which ministers will discuss would be to consolidate the 12 area boards into four regional companies.

Ministers are likely to be in general agreement that the South of Scotland Electricity Board which generates, distributes and sells electricity should be privatised separately as a regulated monopoly.

Mr Parkinson has now all but

abandoned the possibility of splitting up the CEGB into a number of competing generating companies. He can be expected to tell Cabinet colleagues that this would not be feasible if they want to keep to the present timetable of privatising the electricity industry this Parliament.

This is because several years would be needed to establish new management teams and to build up financial track records before demerged generating companies could be floated on the stock market.

Moreover, the Cabinet will be told that any radical break-up of the CEGB's generating operations would have to be achieved against strong opposition from trade unions and management.

The nuclear power stations, which account for about a fifth of Britain's generating capacity, would further complicate any division of the CEGB's empire. This is partly because of sensitivity to the safety of nuclear reactors, and partly because nuclear reactors are much

cheaper to run than conventional power plants, although they are more expensive to build.

Mr Parkinson has now received detailed submissions and contradictory advice from all the main sectors of the industry.

● The CEGB says it wants to remain intact as a single private sector company. It has said that any change from the present integrated management of the grid and power plant would result in higher costs or increased risks of black-outs.

● The Electricity Council, theoretically the industry's supreme body, says a single integrated distribution company should be set up. This would sell power to customers as the area boards do at present. In addition, it would be able to build power stations and would control the grid. The CEGB would then be relegated to a subordinate position of supplying power and would lose most of its strategic planning role.

● The Area Boards broadly want to stay in being, as regulated private

companies, although some see advantages in an umbrella "holding company" analogous to the Electricity Council. Others prefer consolidation into four regional companies. They are generally agreed that the distribution companies should control the grid.

● The electricity unions are against privatisation in principle. In practice they would be more vigorously opposed to a break-up of the CEGB's generating operations than to a change of ownership of the grid.

They say they will not tolerate any attempt to circumvent present national agreements on manning and safety. The first meeting of senior members of the Cabinet is likely to discuss only the broad issues arising from these submissions.

Detailed decisions on the industry's future shape are likely to emerge from discussions in the early part of next month. If all goes well, Mr Parkinson expects to announce the agenda for revised legislation in December.

NUM sets British Coal overtime ultimatum

BY CHARLES LEADBEATER

THE NATIONAL Union of Mineworkers will start a national overtime ban from September 21, over British Coal's controversial disciplinary code, unless a negotiated settlement to the dispute can be reached within the next two weeks.

The NUM's national executive committee, meeting in Blackpool, on the eve of the Trades Union Congress's annual meeting, called on British Coal to hold further talks with the union as soon as possible.

It is thought likely talks could be arranged for later this week. British Coal said it would continue with its open door policy towards negotiations with the union. But before talks could be arranged the NUM would have to outline in writing its detailed criticisms of amendments

to the code the Corporation has proposed.

The code has become the focus of dispute between the Corporation and the union since it was introduced in March.

Several executive members said they were hopeful a settlement could be reached. Senior officials of Acas, the conciliation service, are in Blackpool, ready to facilitate the talks.

Under the government's trade union legislation, which gives unions 28 days to implement a ballot vote in favour of industrial action, September 21 is the last possible date on which the union could start action.

Miners voted by a 77.5 per cent majority to take action short of

strike action, in a ballot held during July and August.

Mr Arthur Scargill the NUM's president, said there remained six main points on which the union wanted changes to the code. This is in spite of British Coal's proposals for changes, outlined in a letter to the union by Mr Kevin Hunt, the Corporation's director of industrial relations.

Mr Scargill said the proposals, which were drawn up after talks with Acas last week, did hardly anything to meet the union's objections.

Mr Hunt said British Coal was prepared to allow miners to be represented by a union official of their choice, but if the official had been dismissed the disciplinary inter-

view would have to be held away from Corporation premises.

Mr Scargill said this was ludicrous and did nothing to clear up the position of NUM officials in Nottinghamshire and South Derbyshire, where the breakaway union of Democratic Mineworkers is in the majority.

British Coal has said it will stand by the adjudication of industrial tribunals in cases of unfair dismissal. But Mr Scargill insisted the NUM still wanted pit umpires, who could make binding recommendations on reinstatement, to be re-established as the final court of appeal in the industry.

The NUM wants all disciplinary procedures to be concluded within 14 days whereas British Coal has offered a 28 day timetable.

Rival unions in joint move on pensions

BY CHARLES LEADBEATER AND DAVID BRINDLE

LEADERS of the National Union of Mineworkers (NUM) yesterday took the first step towards officially recognising at national level the breakaway Union of Democratic Mineworkers.

The NUM's national executive committee, meeting in the coastal resort town of Blackpool, decided to take up its seats on the national committees which govern the mineworkers' pension scheme and the industry's social welfare organisation.

The two committees are jointly responsible for distributing tens of millions of pounds in benefits to miners, retired miners and the families of deceased miners.

The NUM's decision will mean that representatives of two unions will sit together for the first time since the formation of the UDM in the bitter aftermath of the year-long pit strike which ended in March 1985.

The constitutions of the committees were altered by the Coal Industry Act 1986 to allow seats for the UDM. Draft orders detailing allocation of seats were circulated earlier this summer by Mr Cecil Parkinson, the Energy Secretary.

The NUM's leaders yesterday accepted the allocation by membership: the union, which has

about 100,000 members in the industry, will have a substantial majority over the 27,000-strong UDM.

The executive took the decision despite opposition by Mr Arthur Scargill, NUM president. He refused to be nominated for a seat on either of the committees.

However, Mr Peter Heathfield, NUM general secretary, and Mr Sammy Thompson, the union's vice president, will sit on the social welfare committee.

Mr Ron Todd, general secretary of the TGWU transport union yesterday confirmed that his union had approached the NUM about a £1.6m loan the

TGWU made to the miners' union during the 1984-85 dispute.

Mr Todd described as "scurrilous" reports suggesting that the Transport and General Workers Union was pressing the NUM for speedy repayment.

However, he said: "We are responsible to our members. We have spoken to the union concerned in order to meet with our own financial requirements."

Mr Todd said the NUM could look to the TGWU for further financial support in the event of the miners running into more difficulties.

Health executive hit by cash limits

BY OUR LABOUR STAFF

CASH LIMITS have forced the Health and Safety Executive to slow down its recruitment despite increased industrial accidents.

The Institution of Professional Civil Servants, the factory inspectors' union, says the move amounts to a freeze on recruitment for all posts except those in basic administrative grades where turnover is rapid.

The executive is shortly to advertise vacancies for factory inspectors but the union says the recruitment restrictions will mean that suc-

cessful candidates will be unable to take up posts until the next financial year in April 1988.

Ms Liz Jenkins, the IPCS national officer representing HSE staff, said: "The executive are projecting an overspend of £1.6m on a budget of £10m, so they are doing this to try to stop themselves getting deeper into the mire."

The HSE would not comment on these figures, nor on suggestions that it has bid for an extra £10m of government funds in 1988-89.

However, it did say: "We have been faced with very substantial pay increases for some grades of professional staff this year, which means we are forced to slow down recruitment in order to try to keep within our budget provisions."

Disclosure of the HSE's financial squeeze follows publication of figures showing an increase of 31 per cent in major and fatal injuries in manufacturing industry between 1981 and 1986. The number of factory inspectors has fallen from 740 in 1979 to about 600.

New leader for Scottish teachers union

By Our Labour Staff

LEADERS of the main union for teachers in Scotland voted at the weekend to appoint a 33-year-old official as general secretary.

Mr Jim Martin will become the youngest leader of a Trades Union Congress-affiliated union when he takes over the top job at the Educational Institute of Scotland (EIS) when Mr John Pollock retires next spring.

Mr Martin, a graduate of Heriot Watt University, Edinburgh, and a former economics teacher, joined the EIS staff in 1979 and has been an assistant secretary since 1984.

He is a member of the opposition Labour Party and is seen as a "soft" left-winger. The EIS plans to hold a ballot this autumn on setting up a political fund to provide financial backing to Labour - although not affiliating to the party.

The union, which has about 43,500 members, fought a highly effective pay campaign between 1984 and 1986 and Mr Pollock is widely respected in the Labour movement.

Mr Martin said yesterday: "I don't expect to inherit his reputation as the best teacher trade union general secretary in Europe - I'm going to have to earn it."

Apart from a continuing problem of under-funding of state schools, Mr Martin said, the EIS faced the fresh challenge of the government's education reforms in England and Wales being spread to Scotland.

Mr Martin's appointment was made by the EIS's 130-strong governing council. On a first ballot, he won a clear majority of votes over rival candidates Mr Fred Forrester, EIS organising secretary, and Mr Jack Dale, the union's secretary for further and higher education.

Mr Martin will formally become EIS general secretary designate on December 1 and will work in tandem with Mr Pollock from then until the end of April.

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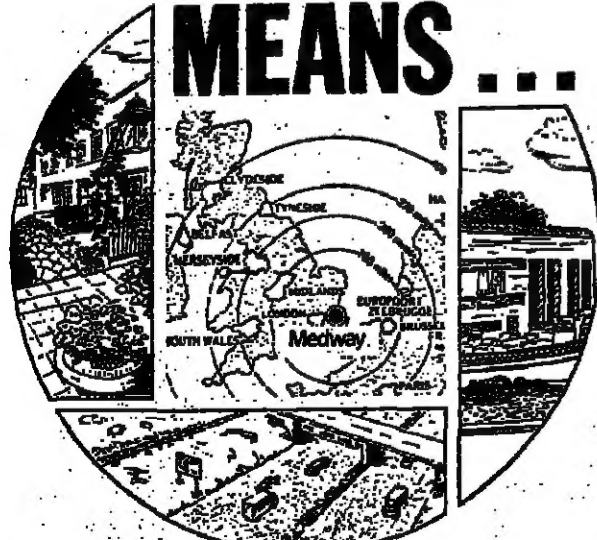


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UK NEWS

Alliance leaders set timetable for merger talks

By John Hunt

MR DAVID STEEL, the Liberal leader, and Mr Robert MacLennan, the new leader of the Social Democratic Party, hope to conclude negotiations on a merger between the two parties by the end of the year as a result of their meeting in Scotland yesterday.

It is anticipated that the proposals will then be submitted for ratification to representative conferences of the two parties in January.

Both said they were "raring to go." Mr Steel added: "I am quite certain we will have the show very firmly on the road by the new year."

The meeting, the first since Mr MacLennan became leader, lasted for an hour in Dumfries-shire, Scotland. In an amicable statement issued afterwards, they said the merger talks would be embarked on as soon as possible after the Liberal annual assembly in Harrogate next week.

They were determined that these talks would be "positive and creative" and would lead to the possibility of an "electable alternative government" for the post-Thatcher period.

No decision came out of the

meeting on whether the Liberals should hold a ballot on merger. The party assembly may debate the possibility of a ballot but the feeling after the talks yesterday was that momentum for a merger was so great that such a vote would be redundant.

Detailed policy questions were not touched on yesterday. The difficult subject of a nuclear defence policy, where the parties have differed in the past, was not discussed.

Mr MacLennan reported to Mr Steel on the feeling that emerged from the SDP's annual conference. It was said from the SDP camp that "substantial progress" had been made, the two sides were going to get on with the job of merger negotiations and that areas of agreement would be reached at an early stage.

Mr MacLennan was encouraged by a statement at the weekend from the Liberal Parliamentary Association, a group of leading Liberals. It said that there was common ground among a "substantial group" in both parties on key policy areas that could prove stumbling blocks in the talks.

Consultant to rule on rival Hong Kong cable TV bids

By Raymond Snoddy

A TEAM led by Mr Charles Jonscher, a British communications consultant, has been asked to adjudicate on rival British Telecom and Cable and Wireless plans to bring cable television to Hong Kong.

BT and Cable and Wireless are among the consortiums competing for the Hong Kong franchise in a project which could involve up to £1bn.

The consortiums include Hong Kong Telephone, a company controlled by Cable and Wireless, and BT, linked with Hutchison Cable Vision. The aim is to provide telecommunications services as well as cable television.

The Hong Kong project is an ironic reversal of roles for BT and Cable and Wireless, which owns Mercury Communications.

In Britain, Mercury and its parent company are trying to dent BT dominance in telecommunications. In Hong Kong, Cable and Wireless is the dominant telecommunications company and BT is trying to set up in competition.

The Hong Kong Government is expected to make its decision next year.

Fight likely over Labour policy revision

By John Hunt

A FIGHT over Labour policy revision, after the party's general-election defeat, was signalled yesterday on publication of the agenda for its annual conference in Brighton this month.

A National Union of Public Employees amendment provides a springboard for those such as Mr Bryan Gould, general election campaign co-ordinator, who want a shift to the middle ground. It says the party must "listen to the groups whose votes we need to win," a reference to attracting middle-class voters and to winning back members of the affluent working class.

It says Labour's programme must be "attractive, imaginative and responsive to the concerns of working people and relevant to the needs of Britain in the 1990s."

An amendment by Liverpool Walton party—the constituency of Mr Eric Heffer, a leading left-winger—warns against diluting Labour's commitment to Clause IV "as advocated by some party spokesmen in the aftermath of the election defeat."

The amendment says that, contrary to the view that socialism is old-fashioned and unpopular, it believes Labour will win a majority when it advocates policies like those successful in Liverpool at the general election.

It urges the leadership to recognise that the only realistic response to what it calls an increasingly rapid right-wing Tory Party is to reassert the essential core of Labour policy and to avoid retreat from that.

It seems Mr Neil Kinnock, party leader, will face a struggle to get his one-member, one-vote proposals accepted. By that, candidates would be selected by all members of a constituency party. Amendments by such parties say that would be divisive and damage party prospects.

The national executive committee's annual report, published yesterday, shows that party membership dropped from 7.2m in 1979 to 6.1m last year.

David Lascelles reports on implications of the finding against Bankers Trust

Questions Libya ruling raises for US banks



Alfred Brittain, chairman of Bankers Trust

THE JUDGMENT won by Libya in the English High Court last week entitling it to repayment of £292m (£178m) of deposits from Bankers Trust's London branch has been hailed as good news for UK banking. But, far from bringing an end to the problem, it creates fresh ones for US banks.

The trial also threw up disturbing evidence about the way US banks treat some of their customers which might well, ironically, provoke some sympathy for the Libyans.

The main point established was that the freeze imposed by President Reagan on Libyan assets held by US banks as part of his anti-terrorism campaign last year did not extend to London branches of US banks. Mr Justice Staughton said that since the UK had not imposed a similar freeze, Libya was entitled to withdraw any money it had placed with Bankers Trust in London.

He rejected Bankers Trust's argument that it would have to route any payouts from its London branch through the New York clearing house, where they would have fallen foul of the freeze. Libya, he said, could have demanded the money in cash in London and Bankers Trust would have had to pay.

"The judgement is a tremendous help," said Mr Jack Rutchings of Lovell, White & King, the solicitors acting for the Libyan Arab Foreign Bank, which sued Bankers Trust. "It protects the principle that money deposited in London is payable in London."

That should strengthen the City's position in the international financial markets, not surprisingly, countries such as Switzerland watched the proceedings with great interest.

The judgement also blunts the force of an assets freeze as a weapon in international power

play and makes it unlikely that the US Administration will again attempt such an action. Washington's previous freeze—on Iranian assets during the 1979 hostage crisis—never resulted in a court challenge, but is being resolved through an escrow account in the Netherlands.

Bankers Trust may yet appeal against the judgement. But the bank finds itself in an awkward position.

If it pays out the deposits in accordance with the judgement, it will still be in breach of US law because the freeze remains in force. "We find ourselves caught between a rock and a hard place," said Mr Graham Bristle of Linklaters and Paines, who acted for Bankers Trust.

The US bank can apply to the US Treasury for a special exemption licence. Whether this is granted will be a political decision for Washington which would have to weigh the

US's continuing hostility to Libya against respect for a court decision by a close ally. The US Treasury said last week that it was monitoring the situation closely, but could not comment.

Bankers Trust is believed to have been the US bank with the largest Libyan deposits. But other banks also have smaller amounts of Libyan money and are likely to await the outcome of any appeal before deciding what to do.

Aside from the legal precedents established by the case—the first of its kind—the hearings shed light on certain US banking practices that are certain to arouse controversy.

Evidence produced in court, including internal memos from Bankers Trust, showed the bank was dissatisfied with the way the Libyans ran their account, so it altered the terms of it without telling them. The effect was to reduce the amount of interest the deposits earned.

Since the Libyans did not notice that anything had happened, the change might have gone unrecorded but for investigations connected with the trial.

Bankers Trust memos show that this "modification" was done to boost the bank's income from the Libyan account, because the Libyans had refused to keep bigger balances. Bank executives were aware of the sensitivity of what they had done. "Are we setting the trap in interest earnings?" asks one memo.

Mr Peter Blenk, a Bankers Trust vice-president, told the court it was "market practice" for US banks to handle the accounts of developing countries, particularly in Africa, in such a way that they lost one day's interest on new deposits. He named Manufacturers Hanover and Irving Trust as others that did so.

Mr Justice Staughton said he agreed with an expert witness who described Bankers Trust's action as "a flagrant example of bad faith" and he ordered it to repay the lost interest to Libya, which is likely to amount to £2m. Bankers Trust's defence was that "Libya ought to have noticed" it was losing interest.

The trial also raised questions as to whether Bankers Trust was abiding by the spirit, if not the letter, of Federal Reserve Board regulations. US banks are supposed to place 12 per cent of their deposits on a non-interest-paying basis with the Fed as a reserve under Regulation D.

An exemption is granted for offshore accounts which are only payable outside the US. Bankers Trust was claiming this exemption for its Libyan account, even though it was payable through an account in New York. That saved Bankers

Trust a lot of money. Commenting on the evidence, Mr Justice Staughton said that either Regulation D did not mean what it appeared to say "or else Bankers Trust casually disregarded it," but said it was not for him to decide.

Bankers Trust also made life more difficult for itself at the time of the freeze by disobeying a standing instruction from the Libyans to transfer funds from their New York account to their London account. The instruction required the transfer to be made at 2 pm on January 8, 1986, only two hours before the freeze was announced, with immediate effect, at 4 pm.

Mr Fablen Arnsell, the Bankers Trust officer who halted the transfer, told the court: "I cannot now recall the precise reason why I gave that instruction."

All that day, Mr Alfred Brittain, Bankers Trust's chairman, was in contact with Mr Gerry Corrigan, the president of the New York Fed, who had told him to keep an eye on Libyan fund movements. When Mr Brittain said he wanted to make the transfer, Mr Corrigan told him: "You'd better call Treasury Secretary James Baker," which he did at about 4 pm, only to be told that the freeze was now in force.

Mr Brittain told the court this was the first he knew of a freeze. "That's how naive I was," Mr Corrigan commented. "I am afraid I can but agree with Mr Brittain's description of himself."

The case highlights the complexities and embarrassments banks encounter through their international dealings, particularly when they involve controversial customers. The main consolation to emerge is that they are less likely in future to find themselves pitched by an assets freeze into the heart of an international dispute.

CBI concerned over water sell-off plans

By Richard Evans

THE Confederation of British Industry, widely regarded as an ally of Mr Nicholas Ridley, Environment Secretary, in his controversial plans to privatise the water industry, appears to be swinging away from the Government's latest proposals.

Consultations with member organisations are continuing, and a final position will not be confirmed until a council meeting on October 21, but outright opposition to the CBI would be a significant blow for Mr Ridley who is already facing bitter opposition from within the water industry.

Present indications are that CBI members are deeply concerned about two aspects of the Government's proposals, which were published — without consultations with the industry — in

the Conservative Party election manifesto.

First, there is a fear that the plan to set up a National Rivers Authority to take over all regulatory and water management powers from the 10 water authorities in England and Wales could result in an expensive and ineffective quango with a staff of up to 7,000.

Second, there is concern at the loss of the concept of integrated river basin management, under which the authorities control all functions from the collection of rainwater to the disposal of treated sewage. The system has worked well since it was launched in the 1970s industry restructuring.

The Government's original plans, which proposed the flotation of the 10 authorities virtually

as they stand, had to be withdrawn just over a year ago because of fierce opposition from farmers, landowners and sections of industry. They objected to the transfer of all-embracing regulatory powers from the public sector to privatised public limited companies.

Mr Ridley had assumed that his new proposals, outlined in a green paper in July, had met the objections of the three main critics, the National Farmers' Union, the Country Landowners Association and the CBI.

This now appears to be in question and Mr Ridley, already under fire for his plan to substitute domestic rates with a community charge or poll tax, could find himself in more

political difficulty.

A CBI director said: "We are still in the consultation phase, but it cannot be assumed that we will rubber stamp the Government's proposals. There is great concern about the NRA taking into account the loss of the present system of integrated river basin management."

The flotation of the 10 water authorities, which could fetch £50m to £60m, is not scheduled to start before the end of 1989. But the Government could face earlier problems with its bill paving the way for privatisation, now before Parliament.

The bill provides for a series of compulsory water metering trials throughout the country and many peers and Conservative MPs object to this.

Coloroll to restructure carpets arm

By Alice Rawsthorn

COLOROLL, the fast growing home furnishings group, is to restructure Wallbridge Holdings, its recently acquired carpets business, by relaunching Wallbridge products under the banner of Coloroll Carpets.

Earlier this year Coloroll diversified its floor coverings by buying the privately owned manufacturer of tufted carpets for £8.5m. Coloroll will unveil its proposals for the creation of Coloroll Carpets in a presentation tomorrow at the Harrogate Carpet Fair.

Until now Wallbridge has manufactured and distributed its carpets under a variety of brand names, including Longlast, West of England and Wallbridge. These names are to be dropped.

The launch of Coloroll Carpets will be supported by marketing material for retailers and the overall Coloroll advertising campaign, which promotes all the group's products including wallcoverings, tableware and carpets. The group also intends to present a range of carpets co-ordinating with its other product ranges.

Computerisation

Since the acquisition of Wallbridge in March, Coloroll has invested about £1m in computerisation and new machinery. The capacity of the plant in the West Country has been increased by 25 per cent. It is considering whether to set up a distribution centre next year, at a cost of about £5m.

The group, which has previously concentrated on the domestic market for home furnishings, is looking at the possibility of augmenting its interests in the contract or commercial sphere. Coloroll carpets would form part of a co-ordinated range of products for the contract market.

Mr Philip Green, Coloroll's group managing director, said the group intended to increase Wallbridge's share of the £280m British carpet market—previously 2 per cent—over the next few years. But he stressed that Coloroll was unlikely to buy other carpet companies.

In the past year or so the British carpet industry has seen a flurry of acquisitions.

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BBC's choice attacked

By Raymond Snoddy

THE LABOUR Party yesterday condemned the appointment of Mr Howell James, hitherto secretary to the Trade and Industry Secretary Lord Young, to the new post of director of corporate affairs at the BBC.

Mr Robin Corbett, a Labour Party front bench spokesman on home affairs, yesterday described Mr James's appointment as displaying "a blatant attempt to undermine the BBC by backgrounding it was one of Mrs Thatcher's poodles."

In his new job Mr James, 33, will be expected to be a link between the BBC and Parlia-

ment and industry and will be a member of the corporation's board of management.

Mr Corbett said yesterday that he had written to Mr Marmaduke Jones, chairman of the BBC, asking him to review last week's appointment within six months, if not to cancel it. He said the BBC's relationship with Parliament and certainly the Labour Party would be harmed by such an "extremely insensitive appointment."

Mr James is not a member of a political party.

Industrial confidence up

By Our Economics Correspondent

FURTHER evidence of the high level of confidence in Britain's manufacturing industry was published today by the Association of British Chambers of Commerce.

The association's latest survey of the industrial outlook, covering the three months to June, shows manufacturing and service industries reporting a "moderate" improvement in domestic orders, in prospect for employment and in capital investment.

A strengthening in the pound's value during the early

months of the year, however, appears to have slowed the strong upturn in export orders.

The association says the continued buoyancy of domestic sales is most marked in London and the south-east, in East Anglia and Greater Manchester.

The survey also shows a healthy trend in investment in plant and machinery, with reports from six of the regions covered suggest that the number of companies working at full capacity has fallen since the first three months of the year.

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CEGB to press ahead with plan to automate grid

BY MAX WILKINSON, RESOURCES EDITOR

THE Central Electricity Generating Board has decided to go ahead with a plan to computerise the national distribution grid only a few days after the publication of a Monopolies and Mergers Commission report condemning its incompetent management of the project.

Specifications for the new system, now being evaluated by private sector suppliers, appear to be based on the assumption that the board will remain an integrated supplier of electricity and in control of the grid.

However, the system could probably be adapted to serve a privatised electricity industry with competing generating companies, should the Government decide to split up the board.

The new system, costing \$95m, is likely to come into operation in the mid-1990s. It will replace the 1968 computer system used by the CEGB at its National Control Centre in Southwark, London. At present, operators have to telephone regional control centres and power stations to ask them to switch power plants in or out of the system as demand varies.

The new system would automate most of this task and switch individual power stations on or off as required. It will keep constant watch over the usage of the national supergrid high voltage transmission

Experts find names give clue to ages

By Fiona McEwan

BRITISH marketing experts have discovered that a consumer's name can have serious commercial consequences.

Not content with identifying spenders by the sorts of homes they live in, their marital status, the money they earn or their purchasing habits, marketing experts now classify consumers by age. The clue lies in first names.

Ethels and Gilberts, Percys and Hildas, are likely to be more than 65 years old and retired while more contemporary favourites such as Karens and Traceys, Darrens and Kevins tend to fall into the pre-family category of 15 to 24 year olds.

Caci Market Analysis in London, developer of the system, believes that such information will help companies engaged in direct marketing to identify more accurately the consumers they are trying to reach.

Age is a useful discriminator in many markets, says Mr Clive Humby, Caci managing director. Sectors that are particularly age-sensitive include financial services, certain fast-moving packaged goods and durables.

Tumble driers, for instance, are bought primarily by consumers with young children and are aged between 25 to 44. Using the name classification system, known as Monica, marketing experts discover that that age group is identified by names such as Pamela, Brian, Keith and Heather, for instance.

Monica is aimed at satisfying what Caci calls "the current frustration within marketing that people cannot be targeted according to their age."

It was developed after a similar system was seen to work in France. Caci used the 43m names on the electoral register to identify 13,000 different first names, male and female. It built the database for the whole country by way of a mathematical model, taking into account regional favourites. There is, for instance, a preponderance of Duncans in Scotland.

The system is by no means foolproof, especially with names moving in fashion cycles, and indeed 15 per cent of names have been found to have no age bias.

Philip Stephens on whether sterling will link with European currencies

Final throw nears in EMS guessing game



Nigel Lawson: in favour of currency stability

THE GOVERNMENT'S post-election review of whether the time is ripe to take sterling into the EMS exchange rate mechanism has been deliberately low-key.

Officials grudgingly acknowledge existence of the review—it would be difficult not to, as Mr Nigel Lawson, the Chancellor, promised it during the June election campaign. But they are clearly anxious to keep it off the front pages.

However, whether the study is simply for form's sake, or whether it signals that the Government may be on the brink of taking the plunge, remains one of Whitehall's more tantalising guessing games.

There are clues in both directions and the outcome will turn not on sophisticated Treasury analyses, but on the Prime Minister's political instincts.

The economic arguments in favour of membership have been well-rehearsed. A formal link between sterling and the D-Mark, buttressed by the intervention mechanisms available in the EMS, would fill the void left in the Government's anti-inflation strategy by the collapse of monetary targeting.

Although the Treasury insists that its monetary strategy is as coherent as ever, the market's reaction to last month's rise in base rates was a clear indication of confusion. A decision to join would anchor, at least in theory, currency realignments, Britain's counter-

inflation policy to that of West Germany.

Exchange rate stability, as Mr Lawson said last week when he reaffirmed his commitment to keep the pound steady, is a key ingredient in industrial confidence. With manufacturing industry responding vigorously to the opportunities presented by last year's sterling devaluation, preserving that confidence is top of the Government's priorities.

Further, it might hope that, initially at least, a decision to join would pave the way for a steep reduction in interest rates by removing some of the currency "risk premium" which investors now demand on sterling investments.

The Chancellor's conversion to the virtues of actively managed exchange rates was again underlined last week when the publication of August's official reserve figures. They showed substantial Bank of England intervention to cap a rise in the dollar's value and to keep the pound within a narrow band against the D-Mark.

The Treasury does appear to have shifted upwards its informal target range for sterling since the beginning of the year. Assuming, however, a central rate of DM 2.95, the fluctuations against the D-Mark since the June election have been kept well within the 2.25 per cent margin allowed by the EMS.

Mr Lawson, who only two

Washington, can also be seen in a broader context.

As Mr Anthony Loehnis, an executive director of the Bank of England, commented in a little-reported but detailed speech on EMS membership two years ago, a key inhibition to British membership has been "the fear of being caught in the crossfire between a rapidly strengthening D-Mark and a sliding dollar."

The new arrangements to strengthen the operation of the EMS, which central banks seem set to agree by tomorrow, should also be attractive to Britain. They focus on increased use of so-called "intra-marginal intervention"—essentially more vigorous action by central banks to counter speculative attacks on currencies before they reach their prescribed floors within the system.

The measures are hardly revolutionary, but they do imply a tilt in the balance of responsibility from weak currency countries towards West Germany. That in turn could diminish the anti-inflation bias of the system, but then Britain can hardly aspire to West German inflation levels when average earnings are rising by nearly 8 per cent a year.

None of this is to suggest that all the economic arguments against membership have disappeared.

The Treasury still believes that greater exchange rate stability might be at the expense of increased interest rate volatility.

Sterling's role as a petro-currency has diminished, but fluctuations in the oil price still pull sterling in one direction and EMS currencies in the

The pound's status as a reserve currency could introduce a new "bi-polarity" into the exchange rate mechanism. That in turn could boost speculative flows at a time when they already look set to increase in response to the gradual dismantling of capital controls by Britain's partners.

Given the cost inflation differential between Britain and West Germany, the Government would be paying for increased stability between inevitable realignments with bouts of extreme pressure in the immediate run-up to such adjustments. Whether industry would be able to recoup fully any competitive losses at such realignments must also be open to question.

The Treasury and Foreign Office view has been that on balance the pros outweigh the cons. Mrs Thatcher, however, will want to add politics to the over the value of the pound for the fairly nebulous political advantage of appearing more community-minded.

That makes the outcome of the present review impossible to predict with any certainty but if Mr Lawson cannot persuade the Prime Minister within the next few months that the time is ripe, it is difficult to see him ever doing so.

Privatisation of electricity 'will raise consumer costs'

BY OUR RESOURCES EDITOR

PRIVATISATION OF the electricity industry would raise the average cost of power because the private sector would require a higher rate of return than that being achieved, Mr John Lyons, general secretary of the Electrical Power Engineers Association, says, in an article published today.

He says, in his association's magazine, that the present rate of return on capital required by the Government is 2.75 per cent in real terms. In the past financial year the industry had

a real return of 3.1 per cent, equal to 9.6 per cent on historical-cost basis.

He says the signs are that private capital would not be interested in investing at the present rate of return, that privatisation increases the cost of electricity to the consumer, and that the Government would have to abandon its 1983 Energy Act.

The act said electricity boards did not have to pay for any privately-generated electricity if the result would be to raise the cost to the consumer.

Study forecasts long-run growth of 2.5% a year

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE GOVERNMENT has the opportunity to ensure that Britain's economy moves into an essential, third phase of recovery from the deep recession of the early 1980s, says an academic study published today.

The study, from Warwick University's Institute for Employment Research, gives a relatively upbeat assessment of economic prospects into the early 1990s. It suggests that in the years to 1995 the economy's overall performance will be similar to the long-run trend over the two decades before the first oil shock in 1974.

The institute's forecasters predict that economic growth

will average 2.5 per cent in the next few years before slowing slightly in the first half of the 1990s.

Employment is projected to grow by 1.4m between 1986 and 1995, although the official jobs total is likely to remain at about 2.5m.

Several policy initiatives were needed, however, to maintain the recovery's momentum. The institute says that until now the upturn has been divided into two distinct phases—first a natural rebound in investment and stocking from the low levels seen at the depth of the recession and subsequently a broader revival spurred by buoyant incomes

and a falling pound.

More dynamic productivity growth and investment were needed now as the second phase came to an end. Although there had been a significant underlying improvement in Britain's productivity performance, much greater investment was needed to sustain it.

Warwick advocates three policy changes. It says Britain should take up full membership of the European Monetary System to limit the damaging impact of exchange rate fluctuations on exporters. Second, the Government should delay additional cuts in income tax in favour of a gradual reduc-

tion in the National Insurance contributions paid by employers. Third, more resources should be made available for the country's most depressed regions, particularly for education and training.

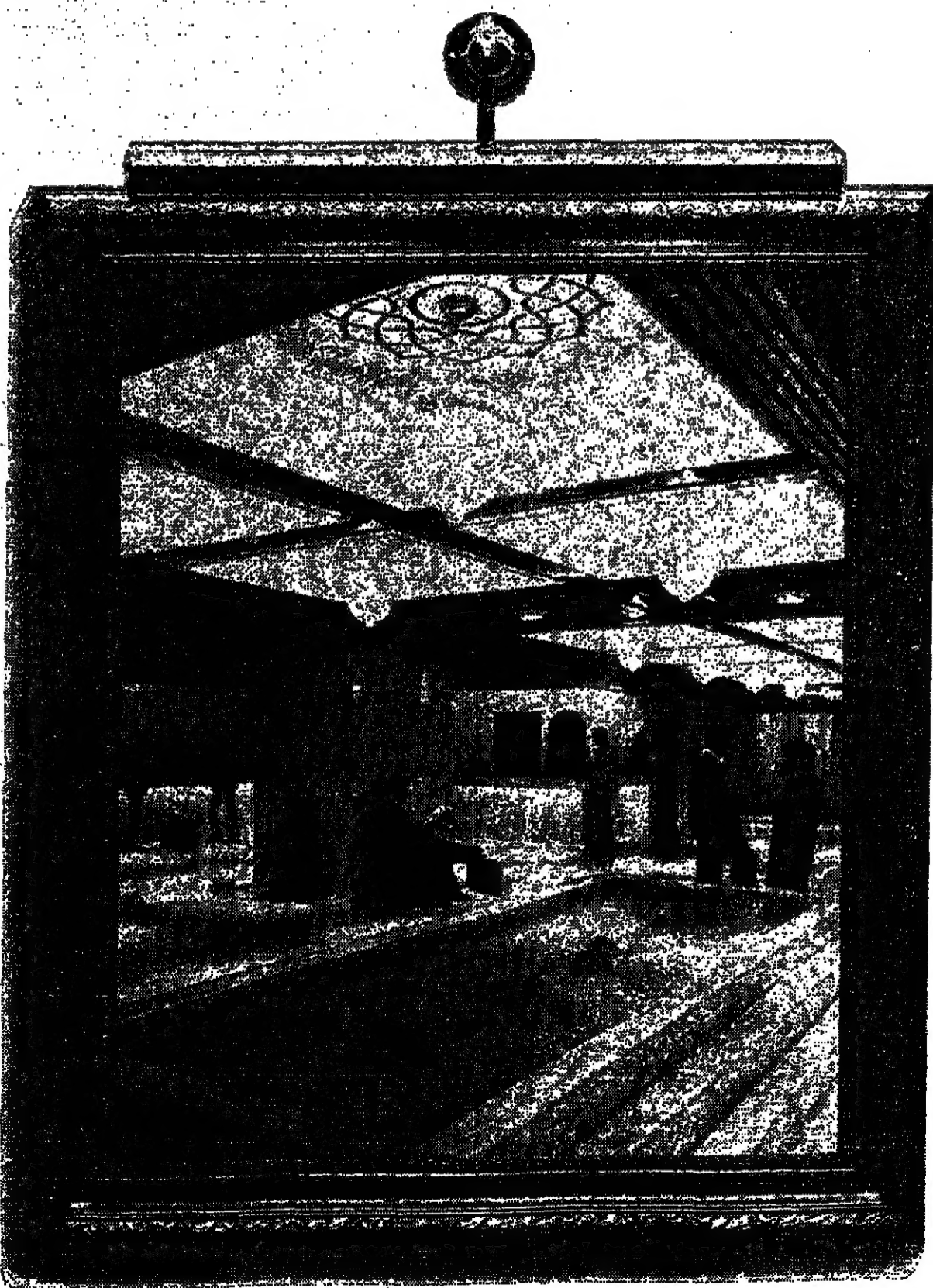
In its detailed review of the employment outlook, the institute says that manufacturing jobs are likely to continue to shrink by about 1 per cent a year, adding up to the loss of another 500,000 jobs by 1995.

This would be more than offset, however, by gains in other sectors of the economy. Small increases in employment could be expected in the public sector, in transport and distri-

bution and in construction. But the main growth would take place in business and personal services.

The continuing shift in employment towards the service sector would be accompanied by a further move within that sector towards self-employment and part-time jobs. The new jobs were also likely to be concentrated in managerial, professional and related occupations. Unskilled jobs were likely to decrease.

Review of the Economy and Employment, Institute for Employment Research, University of Warwick, Coventry CV4 7AL; £20.



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NOTICE TO HOLDERS OF

Shin-Etsu Chemical Co., Ltd.

U.S. \$30,000,000 3 per cent. Convertible Bonds Due 2000

SHIN-ETSU CHEMICAL CO., LTD. (the "Company") has, at its general meeting of shareholders, resolved to change its financial year-end from 31st May to 31st March. As a transitional measure, the Company will have a ten month financial year running from 1st June, 1987 until 31st March, 1988 and thereafter its financial year will run from 1st April until 31st March in the next year.

Accordingly, the record dates for the payment by the Company of annual dividends and interim dividends will become 31st March and 30th September, respectively, in each year, except for the fiscal year running from 1st June, 1987 until 31st March, 1988 where there will be no interim dividend or record date therefor.

Any shares of common stock of the Company ("Shares") issued upon conversion of any of the U.S. \$30,000,000 3 per cent. Convertible Bonds Due 2000 (the "Bonds") during the ten month period from 1st June, 1987 to 31st March, 1988 will be paid full dividends declared in respect of such period; any Shares issued on conversion of Bonds on or after 1st April, 1988 will be paid full dividends declared in respect of the relevant six month period ending on 31st March or 30th September in each year during which the conversion occurs.

The interest payment dates in respect of the Bonds remain unchanged as 31st May and 30th November. With effect from 1st April, 1988, if any Bond is converted during the period from 1st April to 31st May or from 1st October to 30th November in any year, a cash adjustment equivalent to four months' interest accrued to the immediately preceding 31st March or 30th September will be paid to the converting Bondholder. Such payment will be made on the interest payment date being or immediately succeeding such date of conversion in the manner specified in the relevant Conversion Notice.

The Company and LTCB Trust Company, as trustee in respect of the Bonds (the "Trustee"), have entered into a Supplemental Trust Deed dated as of 27th August, 1987 amending the Trust Deed dated 4th March, 1985 constituting the Bonds so as to reflect the changes referred to above and such Supplemental Trust Deed took effect on 28th August, 1987. Copies of such Supplemental Trust Deed are available for inspection at the principal office of the Trustee, presently being at 140 Broadway, New York, N.Y. 10005, and at the specified offices of each of the Paying Agents and Conversion Agents in respect of the Bonds. No physical amendment will be made to definitive Bonds in issue.

SHIN-ETSU CHEMICAL CO., LTD.

Yutaro Kosaka
President and Representative Director

Dated: 7th September, 1987

NOTICE OF MODIFICATION OF WARRANTS

Shin-Etsu Chemical Co., Ltd.

U.S. \$100,000,000 1-3/8 per cent. Guaranteed Notes 1992 with Warrants to subscribe for Shares of common stock of

Shin-Etsu Chemical Co., Ltd.

NOTICE IS HEREBY GIVEN, in accordance with the Instrument by way of deed poll executed on 23rd June, 1987 by Shin-Etsu Chemical Co., Ltd. (the "Company") in connection with its issue of bearer warrants ("Warrants") to subscribe up to 24,375,000 Shares of common stock of the Company, that the Company has executed a Supplemental Instrument by way of deed poll dated 27th August, 1987 modifying the terms of the Warrants. From 28th August, 1987 the Dividend Accrual Period defined in Condition 4 of the Terms and Conditions of the Warrants shall mean the ten-month period from 1st June, 1987 ending on 31st March, 1988 and thereafter each six-month period ending on 31st March or 30th September in each year.

This modification is made consequent to a resolution dated 28th August, 1987 of the general meeting of the shareholders of the Company changing the fiscal year of the Company.

Shares issued upon exercise of any Warrant during the period from 1st June, 1987 to 31st March, 1988 shall entitle the holders thereof to participate in full in any dividend on the Shares with respect to the entire ten-month Dividend Accrual Period from 1st June, 1987 to 31st March, 1988, in accordance with Condition 4 of the Terms and Conditions of the Warrants.

The Disbursement Agent has made a determination in accordance with the Instrument that this modification is not materially prejudicial to the interests of the holders of the Warrants.

SHIN-ETSU CHEMICAL CO., LTD.

Yutaro Kosaka
President and Representative Director

Dated: 7th September, 1987

UK NEWS

Richard Waters on the proposal to allow minority stakes in firms

Accountants balance cost of change

THE opening shots were fired last week in a debate that could lead to financial and other institutions owning minority stakes in accountancy firms.

Such a change is still a long way off. Accountants will not be allowed to switch themselves from partnerships into companies until 1990 at the earliest. Even then, there are likely to be good reasons for them not to offer equity to outsiders.

This autumn, however, ministers will need to decide whether the idea is right in principle. Prompting them is the need to implement the European Community's eighth company law directive, due to form the basis of a 1989 Companies Act.

The EC requires only 51 per cent of the shares in accounting firms to remain in the hands of auditors. The UK cannot go further than this—but it can, if it thinks fit, place tighter limitations on ownership.

The largest accountancy firms those which have moved farthest from their roots in auditing and those which are the most eager to see incorporation allowed—last week demonstrated little agreement on the issue.

They agree that incorporation should be an option for firms. But they do not agree on who should own the equity of accountancy companies.

On one side are firms which claim that the only way to keep auditing independent is to restrict ownership to people working in the business. The argument runs that, since non-accountants make up a growing proportion of a firm's staff, they



Jim Butler: weighing up the benefits

should be allowed to own shares as well as their accountant colleagues.

Mr Jim Butler, senior partner of Peat Marwick Mainwaring & Co., the UK's largest firm of accountants, last week allied himself firmly with this school of thought. However, in common with other senior partners, Mr Butler has yet to discover what his partnership as a whole

wants. With 400 partners, reaching agreement will not be easy. On the other side are firms which want the ownership rules to be drawn as broadly as possible, short of actually allowing outsiders to take control.

This could eventually lead to firms selling shares to institutions or other financial services groups.

Designing a system which allows outside ownership while protecting the independence of auditors is not the least of the problems presented by this option, says Mr Butler. Mr Brandon Gough, senior partner at Coopers Lybrand, disagrees: concerns about independence can be dealt with through a tough rule book, he says.

All the other large firms find themselves in the same camp as Mr Gough, though with different degrees of enthusiasm. At one extreme is Touche Ross, where Mr Mike Blackburn, senior partner, led the lobby for limited liability status when it first emerged two years ago. At the other are firms such as Price Waterhouse, which is only now coming round to the idea.

Mr Elwyn Ellidge, senior partner of Ernst & Whinney, says: "I think most firms and certainly the senior firms believe that in theory we should allow some outside interests."

The Government has shown itself so far to be keen to legislate as liberally as possible. "Generally we believe that regulation of corporate auditors should be left to the profession," it said in a recent consultative paper.

Accountancy firms would like to turn themselves into companies for a number of reasons. For a start, it would give partners' personal assets a degree of protection against negligence claims. Also, it would reflect the reality that most firms already operate under quasi-corporate management structures.

A third and, in the long run, more persuasive reason is that it would give firms access to outside equity capital. Investment in technology and buying other businesses is likely to subject firms to greater financial pressure than they can bear as partnerships.

However, the large firms are not rushing towards incorporation—or at least claim not to be. The senior members of partnerships that number in the hundreds must tread carefully, or risk alienating their junior colleagues. Being a partner with a share in the profits and a vote on important issues, is one thing; being a middle manager in an accountancy company quite another.

The tax implications of becoming a company director will also make accountants think twice. Partners do not pay national insurance contributions on profits and are not within the PAYE system. Such benefits will not be given up lightly.

Also, some of the problems of accountancy partnerships can be dealt with in other ways. Allowing firms to act as true multi-disciplinary partnerships, rather than the complex web of interlocking audit and consultancy partnerships they are at present, would solve some of the management headaches. The consequences of changes in the rules on ownership of accountancy firms may not be felt for some time. However, few doubt that accountants are set for the most important step in their development since auditing became a legal duty 40 years ago.

Commercial vehicles hit record

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

NOT ONLY car sales but also commercial vehicle sales benefited from the introduction of the "E" number-plate prefix last month. Commercial vehicle registrations reached the highest level ever recorded in one month, according to the Society of Motor Manufacturers and Traders.

Commercial vehicle registrations were 15.47 per cent ahead of August 1986 at 40,524. Sales in the first eight months of the year, at 312,589, were also well up, with a 6.52 per cent increase on the same period of last year.

August also brought a new twist in the struggle between newly merged organisations. Iveco Ford and Leyland Daf for top place in the heavy truck (over 3.5 tonnes gross weight) sector.

In the buoyant market con-

ditions, a strong performance in August put Iveco Ford, jointly owned by Iveco, the Fiat-controlled group, and Ford of Britain, back in front of its principal rival, Leyland Daf, the Anglo-Dutch company in which the UK's state-owned Rover concern has a 40 per cent shareholding.

However, there were allegations that Iveco Ford dealers were offering exceptional discounts to win sales for the UK-built cargo trucks during a month when the company improved sales from 890 in August 1986 to 1,687.

The discount offer took Iveco Ford's registrations for the year so far to 9,000, up from 8,507. Its heavy truck sector share of the market went up from 18.2 per cent to just 23 per cent.

Leyland Daf's eight-month sales this year were 8,908, up from 8,421, but its share slipped from 23.2 per cent to 22.8 per cent.

By the end of August, heavy truck sales were 7.4 per cent ahead of the same period last year at 39,002. Registrations of car-derived vans were up by 4.4 per cent to 7,779, while van sales jumped by 9.4 per cent to 91,319.

Light four-wheel-drive vehicle sales increased by 5.1 per cent to 9,570, but bus and coach registrations fell by 12.3 per cent to 1,519.

Imports took 44.62 per cent of the total commercial vehicle market in August (up from the 43.12 per cent of last year) and for the eight months their share was 38.08 per cent (39.99 per cent).

Land Rover yesterday announced record UK monthly sales figures. Registrations of Range Rovers in August were 1,071—34 per cent above the previous record in August last year.

Land Rover August registrations were the second highest monthly total for more than 12 years at 518.

Combined sales of 1,889 were the best since the company was formed in 1948.

Mr Tony Gilroy, managing director, said: "The news comes against an encouraging background on the exports side."

Garages losing servicing work, survey shows

MANY OF Britain's motorists are doing their own servicing, or getting a friend to do it, rather than going to garages which they see as overcharging or offering poor value for money, according to a survey published today.

More than 80 per cent of motorists have their cars serviced regularly, and almost 40 per cent of these, predominantly male, do not have the work done professionally.

The survey, commissioned by SMC, a chain of fast fit motor centres, found that more than 50 per cent of motorists thought garages overcharge for servicing or offer poor value for money while more than 40 per cent also thought that garages did not carry out all the work they claimed to have done.

The vast majority of motorists who had their cars serviced professionally were loyal to one particular centre and said they sought out AA approved garages or motorist centres.

More than two-thirds of all motorists knew what their tyre pressure should be, but only 46 per cent of women, and most checked their tyres and treads every two to four weeks, northerners most frequently.

Fast personal attention and a replacement car for the day, are the two most important added benefits people would like to see offered by garages or motorist centres. Added value services, such as comfortable waiting rooms and a "while you wait" service were most important to women.

Jaguar car sales up 47% in August

THE 5,208 Jaguar and Daimler cars sold worldwide during August were 47 per cent more than the same month last year and marked the first time the company sold more than 5,000 cars in a single month.

In the first eight months of 1987 Jaguar sold more than 51,000 cars. August sales rose 24 per cent in the US, 75 per cent in Europe and 96 per cent in the Far and Middle East.

DIAMOND CAPITAL LTD.

Registered Office:

80 Broad Street, Monrovia, Liberia

The Board of Directors has called a special meeting of shareholders to be held at the offices of Fenchurch Trust Limited, 19 Seaton Place, St. Helier, Jersey (Channel Islands), on September 22, 1987, at 11.00 am, with the following agenda to be voted on:

1. Voting on Articles of Amendment of the Articles of Incorporation which replace section D1 of the Articles as follows:

The aggregate number of shares of stock that the Corporation is authorized to issue is forty thousand (40,000) bearer shares of Class C with a par value of one US dollar (US\$1) per share.

Each bearer share of Class C is entitled to one vote for each share and to dividends and distribution of assets out of surplus or upon liquidation.

The Board of Directors may issue shares of Class C in such number and under such conditions as the Board of Directors may from time to time determine.

The Board of Directors has expressed authority to purchase or redeem shares, in whole or in part, of Class C, at any time at the book value of such shares determined at the time of such redemption, by notice published in a newspaper with a wide international circulation at least 30 days prior to the date set for redemption.

The book value of each Class C share shall be determined by dividing the total net assets of the Corporation by the number of Class C shares issued and outstanding (including the number of Class C shares to which the holders of previously issued Class A shares would be entitled upon surrender of such Class A shares).

Any shares reacquired by the Corporation may be either retained as treasury shares or cancelled by the Board at the time of redemption. Treasury shares are not shares entitled to be voted or to be counted in determining the total number of outstanding shares.

There are no authorized classes of stock of the Corporation other than the Class C shares hereby authorized. Upon the effectiveness of the foregoing provisions, each previously authorized, issued and outstanding Class A share of the Corporation shall, without further action, automatically be converted into a right to receive one Class C share plus four hundred US dollars (US\$400) for each Class A share previously issued and outstanding (Class A shares surrendered).

Each previously issued and outstanding Class A share which is not surrendered shall retain only the right to be surrendered at any time at the book value of such shares plus the return on capital stated above, without interest. All Class A shares so surrendered shall be cancelled. Class C shares shall hereafter be the sole assets of the Corporation and shall be subject to dividends and distribution of assets out of surplus or upon liquidation. The Board of Directors of the Corporation shall make such arrangements as they deem appropriate for the exchange of previously issued Class A shares for Class C shares, plus the return of capital, and for notification of shareholders of the exchange procedures by publication in a newspaper of wide international circulation.

The Board notes that the reason for such Amendment is to diminish the assets of the company as to render possible distribution of assets out of surplus, in accordance with outstanding articles of incorporation and the Liberian Law (S 5.7, S 5.2, S 5.1).

The holders of "A" bearer shares of the Corporation who desire to stand or vote at the meeting shall deposit their certificates with appropriate instructions, not later than September 18, 1987, with SBL 24, avenue Marini, Brussels.

by order of the Board

L. MOYENBOEN

Secretary

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Business representatives from different countries are cordially welcome to visit our Exhibition and inquire trade opportunities.

Date: September 14-23, 1987.
Venue: China United Trading Corp.
GmbH (China Trade Centre in
West Europe)
Address: 3rd floor, Hamburger
Strasse 11, 2000 Hamburg 76
West Germany.
Tel: (040) 22702038, 22702078

Goldstar Co., Ltd.

Notice to the holders of US\$30,000,000
1.75 per cent Convertible Bonds due 2,002

NOTICE IS HEREBY GIVEN TO THE HOLDERS OF ABOVE BONDS THAT the Board of Directors Meeting of the Company, held on June 19, 1987; resolved to issue NEW SHARES under the following terms and conditions:

1. Form and Number of Shares: 10,000,000 ordinary shares in registered form.
2. Issuing Method: 10,000,000 Shares (100%) to be allocated at the price of 8,500 Korean Won per share.
3. Allocation of New Shares: 1,000,000 shares (10%) of the NEW SHARES shall be allocated for the subscription of employment of the Company according to the Law on Fostering the Capital Market in Korea, and remaining 9,000,000 shares (90%) shall be allocated to the shareholders registered on Aug. 14, 1987 at 17:00 in the proportion of 0.3 share per one share.
4. Subscription Period: Sep. 10, 1987—Sep. 11, 1987
5. Payment Date: Sep. 12, 1987
6. Others: Fractions of shares and unsubscribed shall be disposed by Resolution of Board of Directors Meeting.

Bondholders should contact the Trustee for further information.

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She'll get more information moving your way.



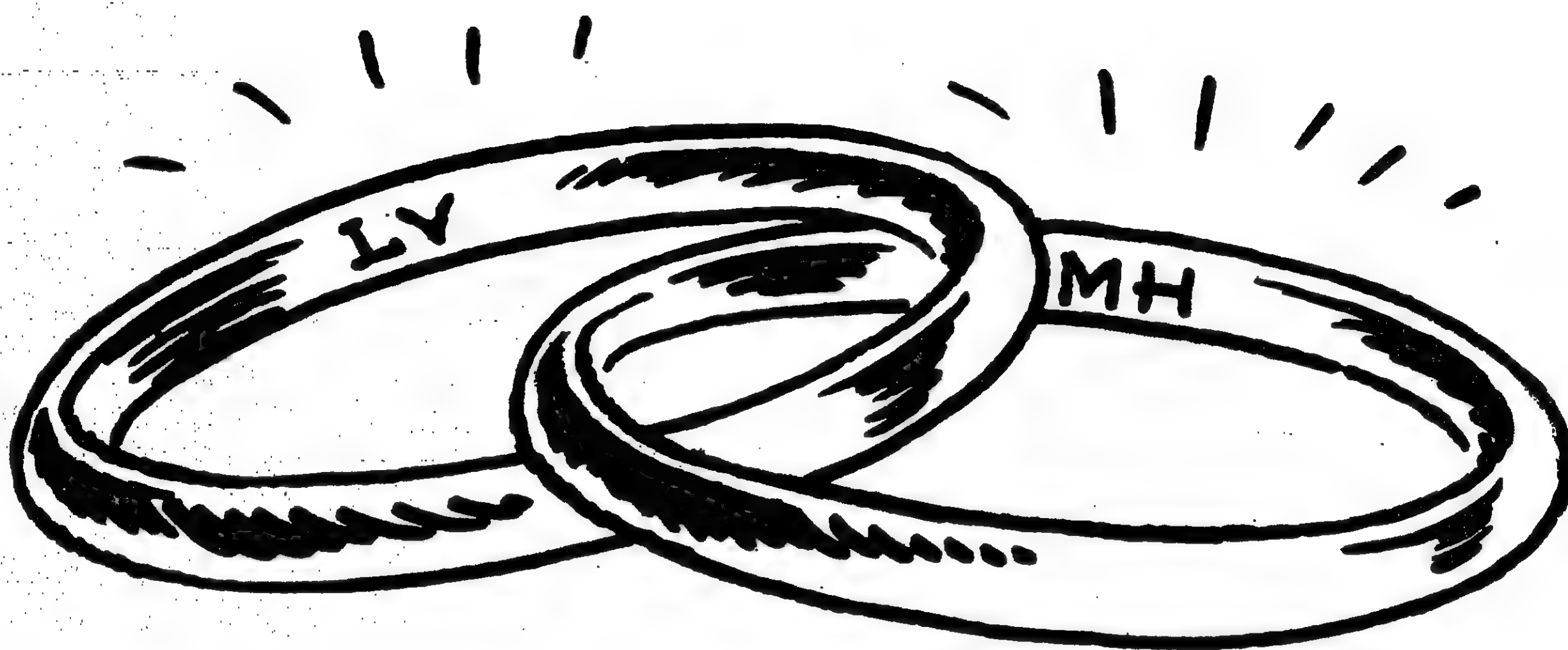
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On September 2, 1987, the shareholders of Moët Hennessy and Louis Vuitton approved the merger of the two companies, creating LVMH Moët Hennessy Louis Vuitton.

The new company will be preeminent among world suppliers of highest quality luxury products, with estimated 1987 sales (78% outside France) of 13 billion French francs and net income of 1.3 billion French francs. With a market capitalization of more than 26 billion French francs, LVMH ranks fourth on the Paris Stock Exchange.

LVMH brings together the following major brands, listed in the order they were created, beginning in 1729:

Ruinart, Moët & Chandon, Dom Pérignon, Veuve Clicquot, Henriot, Mercier, Canard-Duchêne (champagnes), and Domaine Chandon in California.

Hennessy (cognac).

Louis Vuitton (luggage and leather goods).

Roc, Parfums Christian Dior and Parfums Givenchy (perfumes and cosmetics).

Its resources strengthened by the merger, LVMH Moët Hennessy Louis Vuitton will seek out new opportunities in fields compatible with its historic traditions of luxury and highest quality.

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UK NEWS - THE TUC AT BLACKPOOL

TUC likely to support review of unions' role

BY PHILIP BASSETT, LABOUR EDITOR

THE Trades Union Congress is expected today to vote to establish a searching, year-long review of trade union organisation, role and structure in a co-ordinated attempt to halt the decline of union influence, membership and density in the UK.

The vote for the review, which is likely to be overwhelming, will mark the start of an effort by the unions to use this week's conference in Blackpool to improve unions' standing with members and especially with non-union employees, who now form a clear majority of the workforce.

However, while the move for a review will be carried, it was clear in Blackpool last night that there will be vocal opposition to it, partly because of the union's procedural method chosen by the TUC general council — allowing no votes on individual union resolutions on future union organisation but only a single vote on the TUC's statement establishing the review.

● An issue to be covered by the review—the strike-free, single-union deals being reached by some unions.

The chosen procedure is unlikely to prevent sharp differences between unions being made clear at the congress, though they will not be crystallised into formal, binding votes. The main areas of difficulty for the TUC are likely to be:

● Miners. Apart from yesterday's decision by the National Union of Mineworkers' executive setting a two-week deadline for the start of industrial action over British Coal's disciplinary code, the NUM delegation decided to object formally this morning about the TUC's chosen procedure on union organisation, though the scale of votes for the review was indicated when even the left-led NUM made clear it would vote for the TUC's statement.

● Strike-free deals. Divisions over the deals and the right to strike continued yesterday. Mr Arthur Scargill, NUM president, warned on BBC television's This Week, Next Week programme that congress unity would break apart in "one hell of a bust-up," with EETPU, the electricians' union, "coming to

line" or the TUC itself having to take disciplinary action. However, on the same programme Mr Bill Jordan, president of the AEU, the engineers' union, said Mr Scargill was crazy. He made clear the TUC would not support militant action. He said the union champions of confrontation had had their day. "They have lost and we have lost, members as a result" of such strike action.

The CPSA, a civil servants' union, is also determined to attack the deals, though the TUC will not allow the union to withdraw from an already-agreed composite motion to enable it to force the issue to a vote.

● Wapping. Print union leaders will tomorrow bring to the congress floor new charges against EETPU for its continuing activities within News International's Wapping plant, east London.

The conference faces difficulties on such issues as nuclear power and share-ownership.

In spite of this, the TUC is still confident and optimistic as its congress opens. Mr Norman Willis, TUC general secretary, formally launched its main theme at a pre-congress press conference.

He said: "The theme of this year's Congress is Building for the Future. This is more than a slogan: I believe it accurately reflects the mood of the trade union movement today."

NUR resists rail rivals

LEADERS OF THE National Union of Railwaymen are asking the EETPU electricians' union to abandon attempts to organise employees of London's Docklands Light Railway, who last week voted in favour of trade union representation but by a margin the company judged insufficient to grant union recognition.

Mr Jimmy Knapp, NUR general secretary, has written to Mr Eric Hammond, EETPU general secretary, asking for a meeting on the issue at this week's TUC Congress.

Conciliatory move by EETPU over Wapping

By Our Labour Staff

THE EETPU electricians' union yesterday attempted to defuse renewed controversy on the eve of Congress over its role in organising members at News International's newspaper plant in Wapping, East London.

The union's executive set up an internal investigation after being accused of breaking a TUC directive by continuing to organise on behalf of printers at the plant, where four national newspaper titles are produced.

The move was prompted by a letter from Mr Norman Willis, the TUC General Secretary, asking if it was true that the union had prepared a wage claim on behalf of members at Wapping drawn up a draft recognition agreement and carried out a survey of staff opinion.

The report will be investigated by a three-man committee of EETPU executive councillors headed by Mr Paul Gallagher, its president, and will report its findings to both the executive and Mr Willis.

Mr John Grant, the union's head of communications, said yesterday that it wanted to establish exactly what the accusations were and how much truth there was in them before giving Mr Willis a full response.

EETPU hopes to avoid more controversy over Wapping this week, although the print unions Sogat 82 and the National Graphical Association will tomorrow try to force the TUC general council to take further disciplinary action against it.

During the debate on the general council's annual report, the two unions will attempt to persuade Congress to refer back the section on the Wapping dispute.

The accusation that EETPU has broken a February 1986 TUC directive not to continue any non-contractual agreement with News International came from Mr Steve Seaman, a former chairman of the staff salaried council at the plant.

Mr Seaman was reported in The Guardian as having said that Mr Tom Rice, an EETPU national office, had maintained contact with News International management since the TUC directive

As the TUC gathers Philip Bassett analyses the dilemmas facing the labour movement
We're not all right, Jack, and we know it

AS DELEGATES gathered in Blackpool on the eve of today's opening of the TUC Congress, BBC television timed to perfection a screening of *I'm All Right Jack*, the classic 1959 film satire of British trade unionism. Today's expected approval by the Congress of the formation of a special review body on union organisation will mark an attempt by the unions to move away from the traditional self-interested sectionalism summed up by the film's title.

The review will do much to deflect potentially embarrassing splits between the unions. But will it be more than just a classic TUC fudge to get through the Congress week in as good order as possible?

What will the review do? Will it provide the answers the unions need? Will it stop the rot in union power, influence and membership?

Once the Blackpool Congress is over this week, the unions will start moving quickly to find out. Next month's TUC "inner cabinet" the finance and general purposes committee, will draw up a co-ordinated programme of work for the TUC's standing committees and the new special review body itself.

Membership of the review body will be the first hurdle. Membership of the TUC's still-running review body on the nuclear power industry was virtually self-defining, consisting of those unions with an interest in the industry.

Membership of this one, addressing issues affecting all unions, will be harder to determine, but it is likely to consist of 30 union leaders, including all the large unions, balancing left and right-wingers, and trying to draw in the best quality people available where possible.

The special review will mesh in with other related moves. Since February, the TUC has been looking closely at its own finances and spending, and after Congress Mr Norman Willis, TUC general secretary, is to meet the chairman of all the TUC's committees to establish what they should be doing — with perhaps as few as one or two priorities for work as absolute objectives.

The TUC has travelled this path before. Labour's shattering 1983 general election defeat was succeeded by the so-called "new realism" which took shape in an exercise called TUC Strategy, a hard look at union purpose in the

1980s. TUC Strategy, though, was largely outpaced by events. On the one hand, it could not keep up with the model of union militancy put forward by Mr Arthur Scargill and the NUM in the 1984-85 miners' strike, and on the other, it was outpaced by the realism in practice of Mr Eric Hammond and the EETPU electricians.

The Government's union ban at the CSEQ communications centre at Cheltenham and the series of internal TUC difficulties, such as unions applying for Government ballot money meant that the TUC could not devote the necessary time to it. It had in any case deteriorated into a series of questions for unions, rather than answers.

For the unions, the new review will have to be much better. However bad things looked for them in 1983, they look worse now. The TUC is at least aware of this. "We now more clearly recognise the problems that face us," said Mr Willis yesterday. "And recognition of a problem is the most important step towards solving it."

Crucially the TUC recognises that no matter how successful the review body is, and no matter what kind of proposals it brings forward, it is only dealing with a part of the problem. Whatever unions decide or do, they cannot have much influence on "employer push" — employers taking the initiative, wanting change, proposing fresh agreements and

deeper problems facing the union movement which lie behind them — in particular, the gathering resurgence of non-unionism.

Mr Willis' intention is to produce within six months a progress report on the review body's work which will provide a solution to the review body's task.

How unions behave while the review body is at work will be vital. There was no support in the TUC General Council for the call by the TGWU transport union for a formal moratorium on such deals while the review was taking place, and the informal understanding to proceed carefully when offered such agreements by employers has already been put under strain within hours by the EETPU agreeing yet another strike-free deal in South Wales.

Mr Ron Todd, general secretary of the TGWU transport union, who will today move the union's motion against strike-free deals, said yesterday after the union's TUC delegation meeting that Mr Willis would offer "clear consultation and advice and guidance" to unions while the review was under way, though after its meeting the EETPU said that while it would inform the TUC of any deals, and listen to Mr Willis' advice on them carefully—but would not be bound by it.

Mr Willis and his deputy, Mr John Monks, know that they have to resolve the problem of these agreements, and the differences in union philosophy reactions to them, illustrate, if there is to be any prospect of the review body going on to tackle the much wider and deeper problems facing the



forms of industrial relations practice.

Mr Willis thinks that if the unions can work together to offer employers fewer opportunities to divide and rule, then they can influence employer push. It's significant that the new review body will be examining management as well as union strategy.

Its first job, in fact, will be to tackle head-on what is for the unions the most acute aspect of employer push—single union, strike-free deals. Though tiny in number, involving very few companies and even fewer unions, they have become enormously influential and are what will be most immediately controversial in the Congress debate today.

Mr Willis and his deputy, Mr John Monks, know that they have to resolve the problem of these agreements, and the differences in union philosophy reactions to them, illustrate, if there is to be any prospect of the review body going on to tackle the much wider and deeper problems facing the

union movement which lie behind them — in particular, the gathering resurgence of non-unionism.

Mr Willis' intention is to produce within six months a progress report on the review body's work which will provide a solution to the review body's task.

How unions behave while the review body is at work will be vital. There was no support in the TUC General Council for the call by the TGWU transport union for a formal moratorium on such deals while the review was taking place, and the informal understanding to proceed carefully when offered such agreements by employers has already been put under strain within hours by the EETPU agreeing yet another strike-free deal in South Wales.

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Even so, the explicit agreement by unions to keep the TUC informed of such deals will help ease the tension: it will, to some extent, keep the EETPU in check, and it will stem other unions' hypocrites of attacking such agreements in public, while signing them—or deals very unlike them—in private.

But the real problem goes deeper still. If such agreements go on being signed, as the EETPU already is, then whatever may come out of the TUC may not really affect union practice.

Mr Willis is adamant that the review must be practical: "It is not just a question of sitting down at Congress House if things are not changing outside," he says. "If the existence of the review body does not have an influence on what people are saying and asking and doing then it is not a solution."

For the unions, it must be a solution. Given the decline in union power, *I'm All Right Jack* is a long way from how unions are now—but it may well be how they are seen survive, let alone thrive, in the complex, fragmented labour market of the late 1980s and 1990s, trade unions must find a new role to halt their decline a membership and if the proportion of the workforce they represent.

Today's review may be their best—maybe even their last—chance to do it.

Looking for the image of humane unionism

BY JOHN GAPPER

A SMALL symbol of the changes which the Trades Union Congress is trying to make in the face it presents to the world will be handed out to each delegate in Blackpool today.

A glossy Congress Guide—filled with advertisements from companies interested in attracting their attention—will help them find their way around the intricacies of the agenda and the Winter Gardens seating arrangements.

The guide also explains another innovation at the Winter Gardens conference—an exhibition of 22 stands set up by companies and societies ranging from the British-Soviet Friendship Society to British Nuclear

Fuels. Mr Norman Willis, TUC general secretary, said yesterday that the guide and exhibition were part of the TUC's attempt to "look outwards" rather than "look inwards" and recruit new members by offering a wider range of services and a fresh image.

Another part of that effort, delegates will be shown a film today on the theme of the Congress slogan, Building for the Future, which Mr Willis described as "compelling, refreshing and comparable to the ways we receive other messages in this world."

A flick through the guide's advertisements indicates those who see a business

potential in the union style of the future — public relations and communications advisers are strongly represented and even one parliamentary lobbying company has taken space.

One advertisement, from a copywriting and publishing company, refers directly to the lonely subject of falling union membership and offers unions "the help of experienced professionals" in recruiting members.

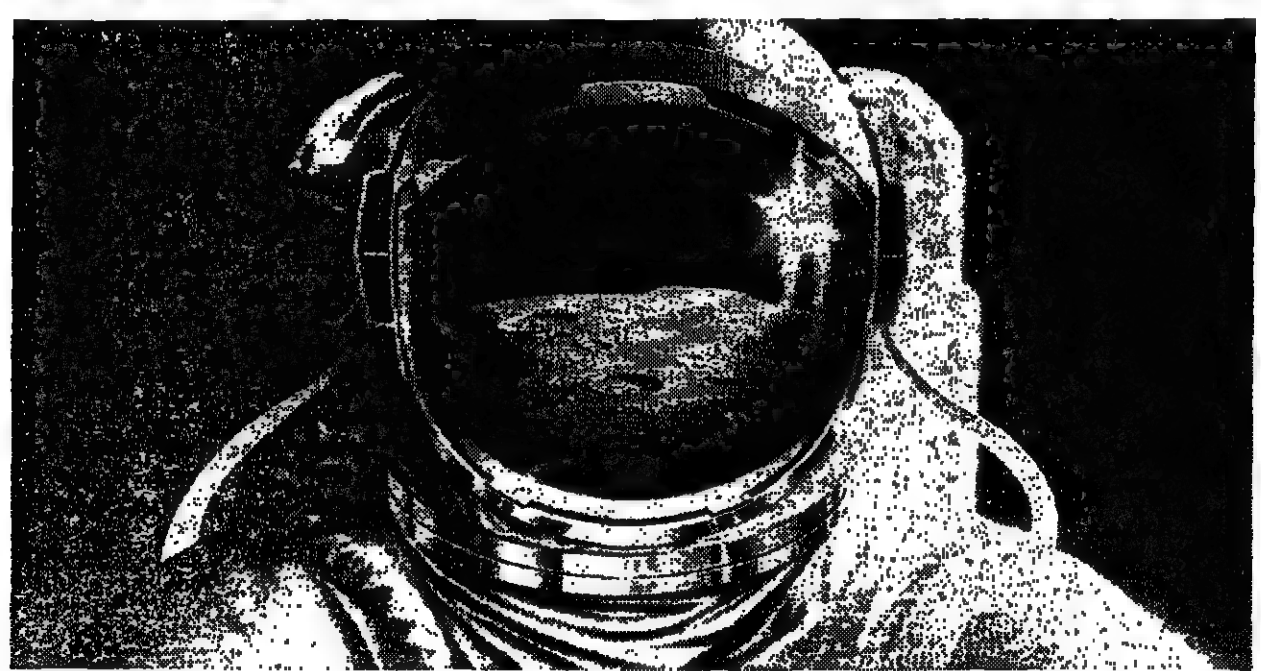
The changed emphasis on the human face of trade unionism even extends to an advertisement for this year's TUC president, Mr Fred Jarvis, which explains how he often "does the claret and blue to cheer on his favourite football team, West Ham."

The matching concern for the movement's public image is reflected in a sympathetic article on press, television and radio coverage headed "Watching them watching us..." which explains the problems of covering the Congress and refers to the "difficult task" facing reporters.

It points out that the 1,800 delegates to Congress are likely to be outnumbered by representatives some 1,600 accredited media.

However, delegates might be rather surprised by one advertisement offering a range of business machines for union officers which highlights equipment made by IBM—a company not notable in TUC circles for being predominantly non-union.

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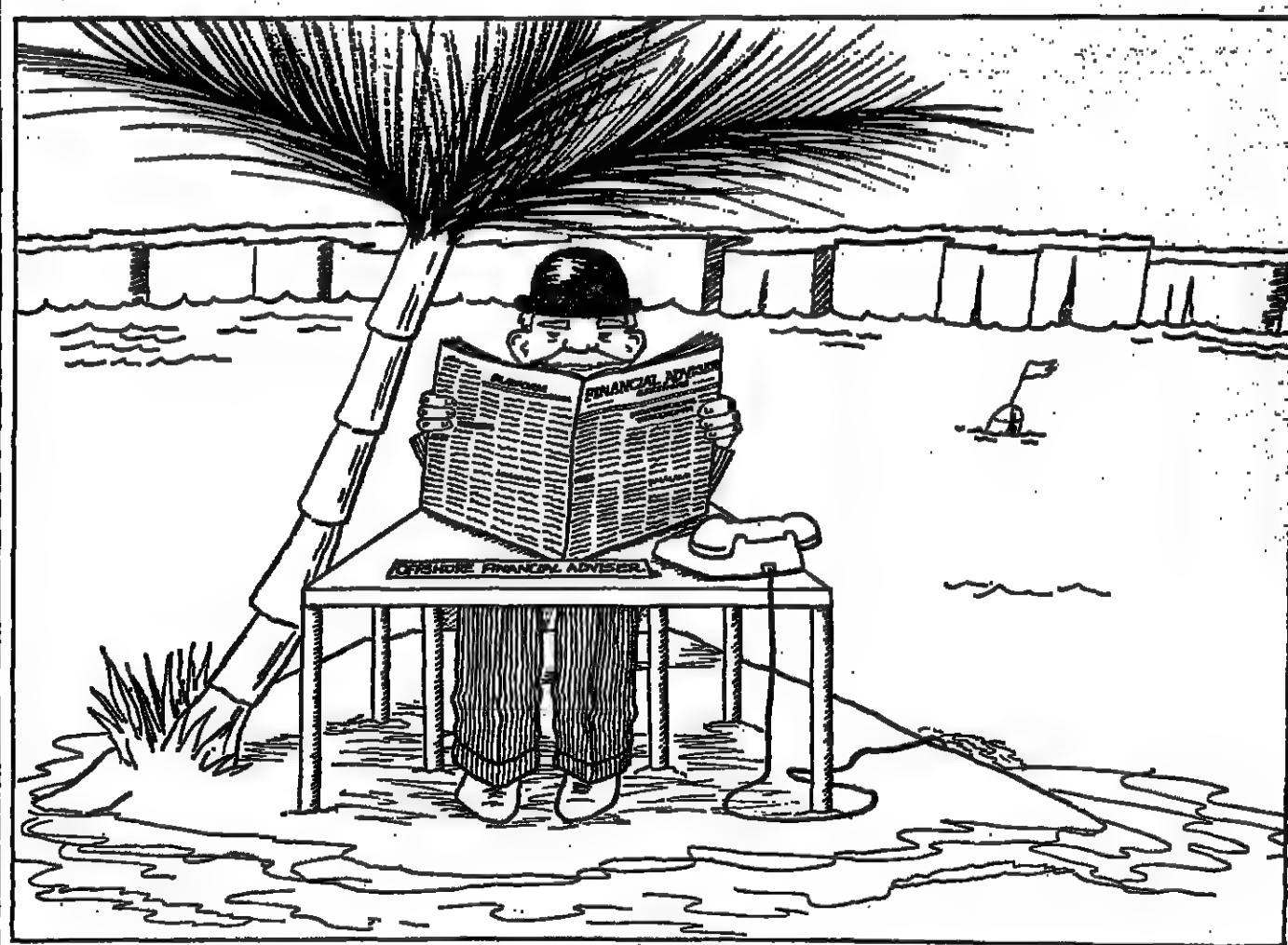
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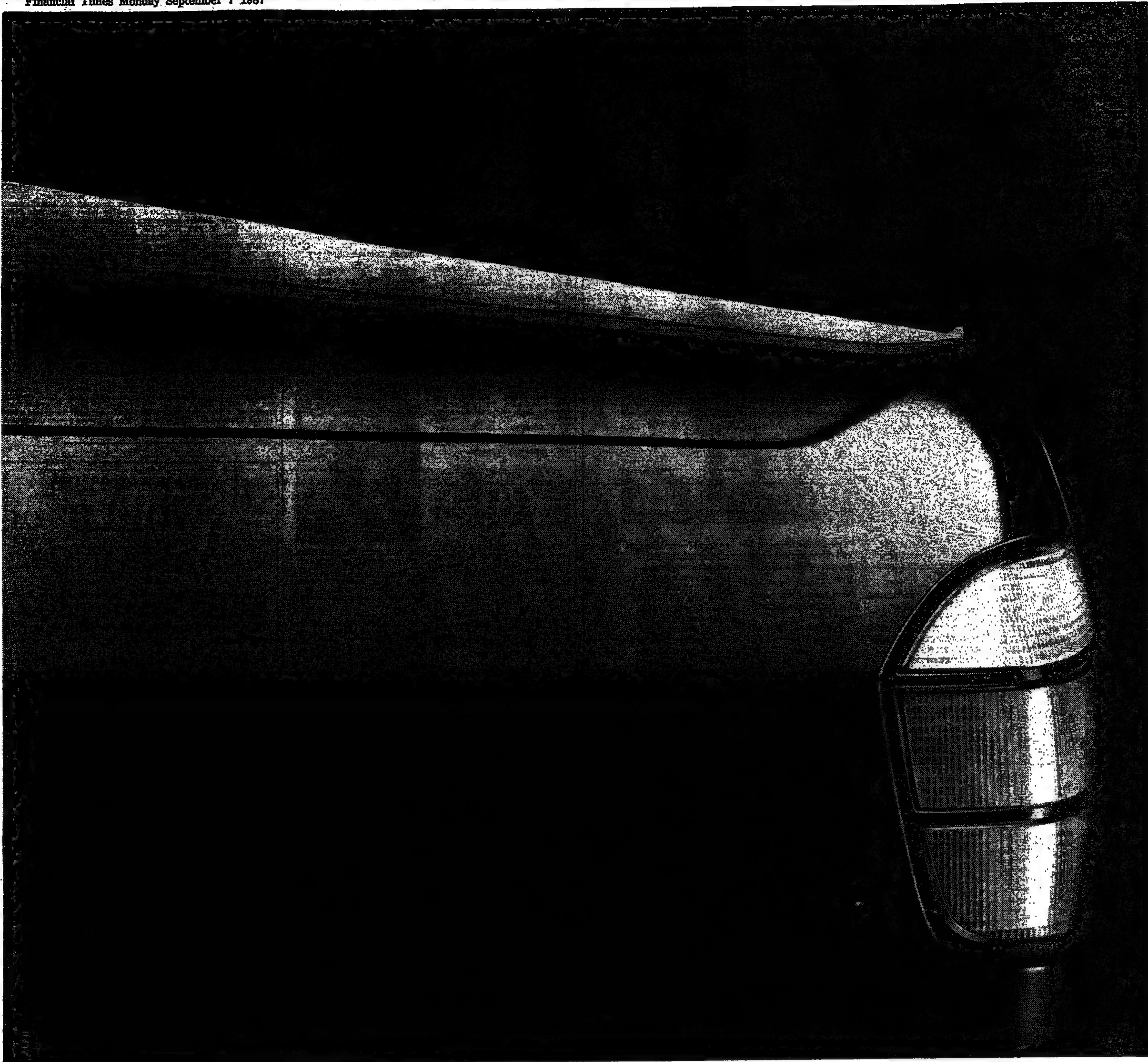
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FINANCIAL ADVISER
OFFSHORE



Beauty is just one of the beauties of a BMW.

Beauty brings its own rewards. This time round, it's called the "Car Design Award". An accolade jealously presented just once a year. And in 1987, that was to the BMW 7 Series design team.

What impressed the jury most were the pure aesthetics of the functional design and the way they so successfully married uncompromising technology with unblemished beauty.

And, in that respect, it's worth

remembering something that's more true today than ever before: any car manufacturer who these days regards design as an end in itself, immediately puts himself in a technology straitjacket. Truly great design always possesses one invisible ingredient: function.

That principle was written into the BMW philosophy from the very beginning. So when BMW engineers and designers are developing a new car, they always have concrete objec-

tives in their minds. The way they achieve these frequently tough and conflicting aims is a creative process where only the perfect combination of drag coefficient, comfort and personality has a place. The outward appearance of a BMW, therefore, will never be the result of a compromise, but much more frequently of a completely new design route.

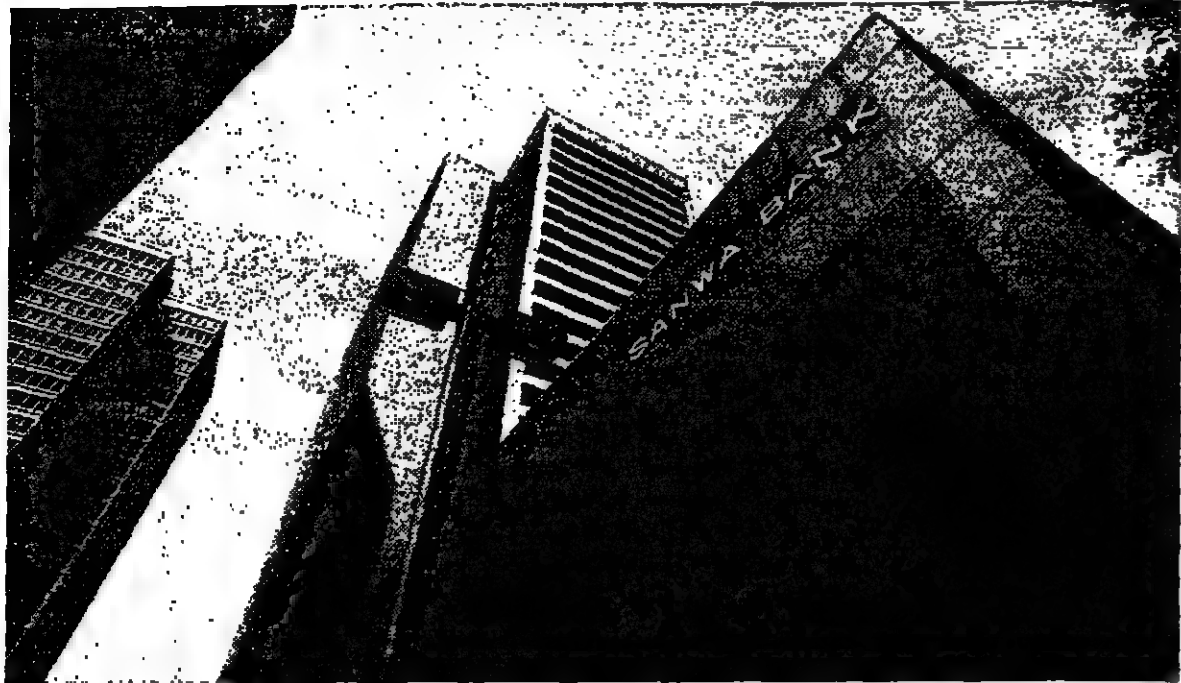
But for BMW functional aesthetics are never confined just to the outside. Even the engines, from the

very first development stage, are co-created by the design team. And perhaps that's why so many BMW drivers have this beguiling habit of now and again looking under the bonnet for no apparent good reason. Except to remind themselves of one of the hidden beauties of their BMW.



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The Sanwa Bank, one of Japan's top financial institutions, has always stressed the importance of providing a wide range of services without bias to a wide spectrum of industries. With a corporate client base that is now among the largest and most diversified in Japan, Sanwa is uniquely positioned to assist overseas companies of all

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Vast resources for more specialized services

Forward-looking banking made Sanwa what it is today: the world's 5th largest bank*, with total assets of over US\$200 billion and the highest credit rating in inter-

national finance. Backed also by subsidiaries and affiliates, Sanwa bankers are now more active than ever in providing the specialized financial and marketing assistance that overseas companies require in their dealings with Japan. Just ask your Sanwa banker. And see what Sanwa's added reach in Japanese finance can do for your business.

Sanwa bankers are working for you everywhere.



*1986 Institutional Investor survey

APPOINTMENTS

Acquisitions bring Weir Gp changes

WEIR GROUP has made organisational changes following recent acquisitions. They are aimed at integrating Mather and Platt Machinery, Manchester, into Weir Pumps. Mr Bill McLean becomes the group director responsible for all operations at Manchester during the merger. Another new role will be to ensure that other future acquisitions are successfully merged into group operations. Mr McLean has also been appointed chairman of Tooling Products Holdings, another recent acquisition, and G. Perry & Sons.

Mr Peter Syme has been appointed managing director of Weir Engineering Services. He will be responsible for the engineering services divisions of both Weir Pumps and Mather and Platt Machinery, Matherwork, Weir, and Weir Engineering. He remains a director of Weir Pumps. Mr John Hood will succeed Mr Syme as managing director of Weir Pumps and will have charge of all group pump operations. Appointed to the board of Weir Pumps are Mr John Frew and Mr Harry Lang. Mr Frew has been promoted to production director from general manager, production. Mr Lang succeeds Mr Hood as sales and marketing director. He was formerly general manager, export sales and licence development.

At the ASSOCIATION FOR PAYMENT CLEARING SERVICES Mr Brian Pearce has succeeded Mr John Harris as chairman of council. Mr Pearce is chief financial officer and a director of Barclays Bank.

KANSALLIS OSARI PANKKI, London, has appointed Mr Hannu Linnanen as senior manager, capital markets marketing and the Finnish desk.

TRIPLE LLOYD has appointed Mr John Constantine as a non-executive director. He retired last April from his post as senior partner of Thomson McLintock and Co's Birmingham office.

HEALING ELECTRO-OPTICS has appointed Mr David Hill as chief executive. Mr Hill (Sandy) Saunders as non-executive chairman and Mr Colin Gervase-Brazier as a non-executive director. The three form the team which recently took over the company via Sagemill, with institutional backing. Mr M. L. D. Windsor has resigned both as chairman and a director of Healing Electro-Optics. Professor J. C. Dainty has also resigned as a director, but will continue to provide advice to the company on technical matters.

BRITISH GAS has made the following appointments: Mr James Harris, HQ director (operations) to be regional chairman, British Gas Northern; and Mr Douglas Ebdon, regional director of corporate planning and management services. British Gas Southern, is to be regional deputy chairman, Scotland. Mr Harris takes up his new appointment on January 1. He succeeds Mr Keith Summersgill who retires on December 31. Mr Ebdon takes up his appointment on October 19.

NEWBY & EYRE has appointed Mr Jon Brockett as managing director. He was group commercial director. Mr Ron Douglas is promoted to commercial director, from commercial manager. Newby & Eyre is a BTR company.

Mr Robin Bellie has been appointed chairman of BURSON-MARSTELLER FINANCIAL. He was managing director of



Standard Chartered Merchant Bank and an executive director of Standard Chartered Group where he is now a non-executive director.

Mr Michael McDonald has been appointed sales and marketing director of PEX, children's hosiery manufacturing and marketing division of Palma Group. He joins from Booker McConnell where he was national sales manager, health feed division. MR DAVID JINKS has been appointed design and development director. He joins from Nicholas and Widenman where he was production director.

R. J. TEMPLE & CO, a member of the Sale Tilney group, has appointed Mr David Lloyd as investment manager responsible for clients' funds under management. He was with American Life Insurance Co, where he was assistant actuary (marketing).

CONTRACTS

Controlling TV advertising

Enterprise Airtime Systems—whose television advertising booking system running on HONEYWELL BULL large-scale computers handles the advertising for 18 of the UK's 15 ITV companies—has ordered a £1.8m DPSS very large system for installation at the group's headquarters at Thames Ditton, South Wales Constabulary, for many years users of Honeywell Bull computers, has signed for further new systems, refurbishment of existing equipment, and environmental control projects in total valued at £1.2m. Included are two DPSS HOLMES (Home Office Large Major Enquiry System), the other to run the recently announced Honeywell Bull administration applications, including the police personnel system and firearms and shotgun licensing system, and a new police vehicle fleet management system. The Holmes facility will have the capacity to support multiple major enquiries concurrently on-line to any or all of the 20 designated incident rooms throughout the three counties of Glamorgan.

The utility Furnas Centrais Elétricas S/A, Rio de Janeiro, has awarded a contract worth \$K 30m (21.9m) to the Brazilian unit of ASEA RELAYS for the supply of relay protection and control equipment. This will be used for the first 800 kV, AC transmission lines with series compensation in Brazil. The contract covers the supply of some 90 protection and control cabinets, which are to be delivered in the next two years. Thomson Regional Newspapers are completing an entire group re-equipment with the installation of a \$500,000 Press II system for the multi-title Chronique and Observer Series From PRESS COMPUTER SYSTEMS Wolverhampton. The first phase of the installation a Chester takes place this month and consists of two PDP 11/70 central processors, each with two 80mb drives, and a total of 42 Tandberg VDUs, 43 Olivetti PCs, five fact printers and one Data Products printer.

Austin Rover has placed two contracts worth a total of nearly £2.5m for equipment to build the K series of engines. The first contract is for two in-line transfer machines for drilling oil holes in crank shafts. The order worth almost £1.2m, has gone to THOMAS HYDER AND SON Derby. The second contract worth £1.2m, has gone to MARBAIX-LATON, Watford, to supply three vertical broaching machines for K series cam rods and caps. The machines smooth off rough-forged cam rods. Work on both contracts should take just over a year to complete.

FINANCIAL TIMES WORLD BANKING

This complete Survey, the first part of which appeared on May 7, has been reprinted as a booklet and is available at the price of £5 (including p&ap). Please return the coupon below for your copy of the booklet.

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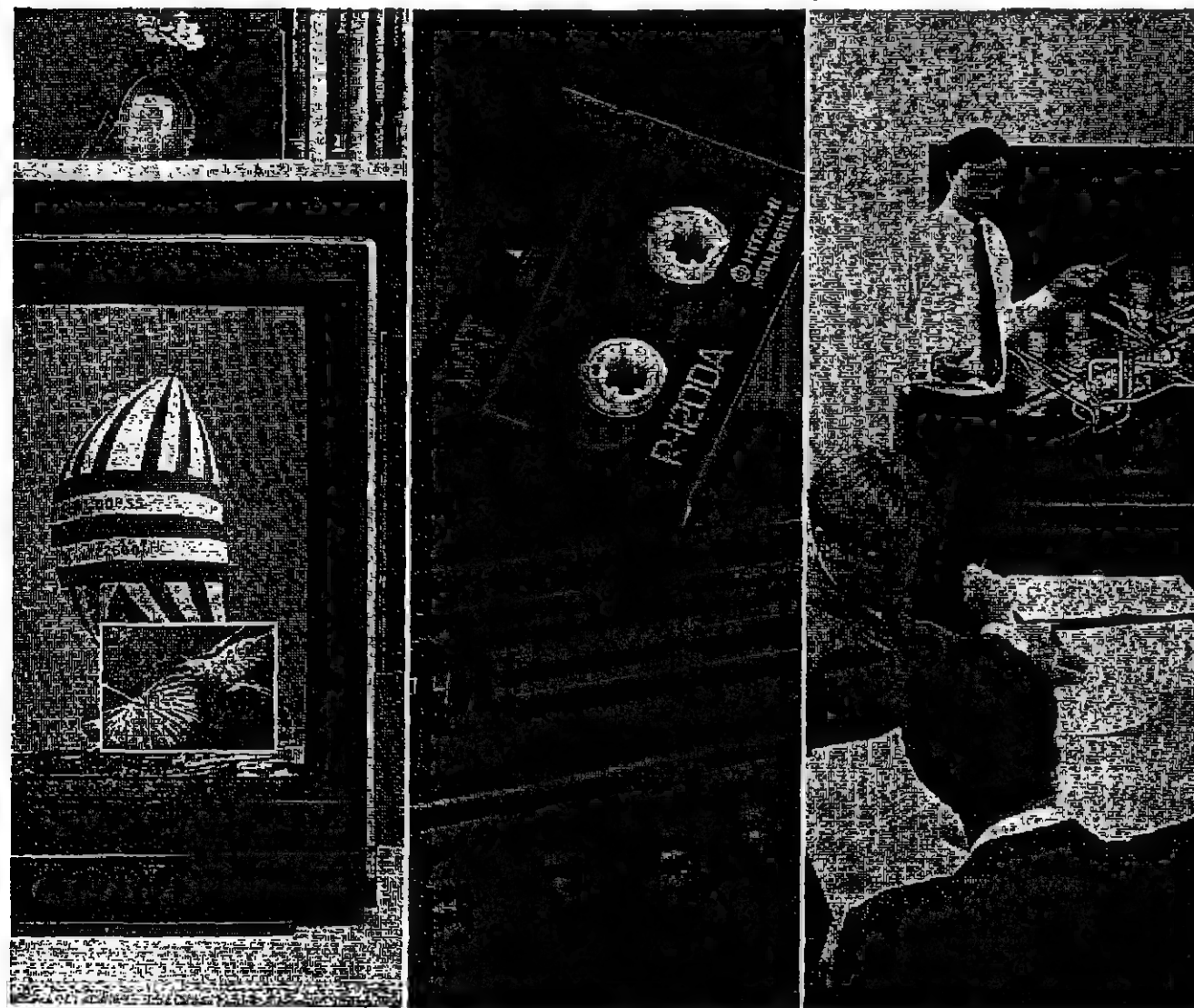
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Hitachi's wide-ranging audiovisual technologies include Picture-in-Picture for simultaneous viewing of more than one programme on a single TV screen, DAT, a high-density projection display, and frame memory used in IDTV.

Digital technology (the conversion of conventional signals into computerized zeros and ones) has led to a remarkable proliferation of audiovisual uses — in TV, for example, for more diversified and sophisticated programming and information services accessible through computer connections or videotex terminals. And this is only the beginning.

Hitachi's scientists and engineers are using digital applications such as frame memory to develop Improved Definition TV. IDTV will greatly improve picture quality without changing current broadcasting standards by doubling the density of scanning lines and increasing vertical resolution 1.5 times. This same Hitachi technology has resulted in the Digital Audio Tape recorder, which is capable of superior recording and reproduction.

Hitachi's original screen technology has led to high-density big screen projection TV, using screens up to 110 inches. It is contributing to a wholly new technology, High Definition TV. HDTV is capable of photographic quality resolution and will soon enable satellite services to transmit wide screen images that give the viewers the feeling of actually being there.

We link technology to human needs, and believe that our special knowledge will lead to numerous easy-to-use systems and products with highly advanced functions. Our goal in audiovisual — and in medicine, energy and transportation as well — is to create and put into practice products and systems that will improve the quality of life the world around.



Hitachi, Ltd. Tokyo, Japan

THE MONDAY PAGE

Come on down, newsmen—the market's right



JOHN LLOYD

BILL STEWART produces the price is right, one of television's most popular game shows. On it volunteers from a studio audience guess the price of products. Nor has Mr Stewart been called "a weekly advert for Thatcherism" (though Mr Stewart spoke in Edinburgh of allegiance to

series. In a talk at the Edinburgh Television Festival last week, he gave his audience an overview of the "serious" and current affairs side of television—a taste of how it might go. The first one might be about defence. Mr George Younger, Secretary of State for Defence, would be invited to appear before it. Mr Stewart would be host. He would ask the audience (pointing at Mr Younger): "How many of you recognise this bloke?"

Stewart looks and sounds as though he has knocked about a bit, seen a few things and is nobody's fool. A former British Red Cross, he works The Price is Right audience—drawn from factories, offices and clubs—into a state of hilarious anticipation before the show is taped with its regular presenter Mr Leslie Crowther. His show has been called "a weekly advert for Thatcherism" (though Mr Stewart spoke in Edinburgh of allegiance to

Dr David Owen).

It is so called by, among others, the kind of people who at present make much current affairs television. At Edinburgh, Stewart was confronted by the editors of Thames TV's This Week and Granada TV's The World in Action—both passionate in the defence of their programmes' ethos to investigate, to challenge, to analyse and to discover.

The journalistic laurels won by these programmes are legion. Their style is tough, concerned, arresting. But, of course, they assume an audience conversant with the current affairs context—or at the least the programmes are better appreciated when such a context can be assumed. None of the weekly "flagship" shows: This Week, World in Action, London Weekend Television's Weekend World, and the BBC's Panorama would think of asking people to identify Mr Younger.

But now they are under attack. Mr Stewart's ideas are backed by those in television hierarchies worried by the drop in some ratings, by the age of their formulae, and who are looking for a new mould. They want to do current affairs, they say, but they want the masses to be engaged by it. They speak in the name of anti-elitism. They want something which might be called The News is Right.

All of this is not just an arcane debate among broadcasting folk. It speaks to the heart of how a democracy is informed and the concept of public service television. Both "sides" insist that the public has a right to know, but one side says that this right lacks meaning so long as the masses are lured by what the present flagship programmes insist is important. The capitalist also suspect that behind their opponents' populism lurk the new international media barons—

Mr Rupert Murdoch, Mr Robert Maxwell, Mr Silvio Berlusconi—wishing to create remunerative prime time slots for pop.

The inert element in this issue is the mass audience itself. As Christopher Dumbley has observed in his column, most FT readers either do not watch much TV, or watch the programmes which the mass audience does not. FT readers are either professionally or intellectually concerned with issues which seldom touch the majority.

To attempt a generalisation: popular concerns tend to these matters which directly touch personal experience; elite concerns take in matters of abstract interest including that indefinable area which is known as "What the well informed person should know" or even talk about at dinner parties.

example and while no doubt there can be no assumption that these may conceal (or reveal) all kinds of personal interplay and intellectual peacocking, the subject still has a dynamic which depends upon the acquisition of information and analysis provided by experienced reporters and "experts".

The lessons the new populists draw from this is to segment the TV audience; to make mass current affairs programmes about topics and in such a way as will touch an experience—abuse of children; TV violence for example—and to put the Portuguese elections and, for that matter, the Peter Wright case (probably, though some might make a case for doing him "pop") at elite times such as late evenings or at weekends, clearing the early mid-evening slots for the new style current affairs.

Programme makers are right to argue that this will devalue the profession of TV

journalism. In particular there can be no assumption that were the new current affairs to become general, funds would still be available for the expensive investigation and analysis which the elite shows need; nor that the new people would observe the journalistic verity that, in the ultimate, free journalism must be prepared to challenge private and state centres of power with energy and courage. A throwaway remark in Edinburgh by Mr Stewart—"If it's boring don't put it on"—does not encourage confidence.

But the impulse to engage or re-engage a mass audience in current affairs is a correct challenge. If that involves reminding those in power—like the Defence Secretary—that he is all but invisible and that he should be called to account before and by people who do not share his cultural assumptions and who are not of his class (as many elite journalists, no matter how

radical, are), then it should be attempted.

The results might be both exhilarating and valuable. It might show that the masses are not inert, to be preached at or condescended to, or for that matter assumed to be interested only in the price of products—though most of us are that.

It was notable, for example, that in covering the last general election many TV producers threw their political guests before the public—either in the studio or on the phone—and that a few of these people stopped the politicians in their tracks as no interviewer had or perhaps could.

Current affairs with mass appeal could stimulate a more popular debate which would by definition shake the assumptions of both conservative and radical elites whose circling round each other provides much of the meat of current affairs. That would be a gain.

INTERVIEW

No way round

Andrew Gowers talks to Yassir Arafat, leader of the PLO

days... What happened? The longest Arab-Israeli confrontation.

"Not only that, but also the longest and most successful war of attrition against the Israelis. It is true that I haven't been able to defeat them by knockout, but definitely, on points, they have been defeated," he says, stabbing his pen on the desk for emphasis.

South Lebanon, Arafat makes clear, remains a focus for Palestinian hostilities against Israel.

PERSONAL FILE

1929 Born in Cairo
1946 Involved in gun running to Palestine from Egypt
1950 Studied for civil engineering degree, Cairo; student activist
1952 Elected President of Palestinian Students Union
1957 Worked in Kuwait as an engineer
1962 Formally established Fatah guerrilla group
1968 Joined PLO
1969 Elected chairman of PLO executive committee. Following expulsion of Palestinian forces from Jordan in 1971 and from Lebanon in 1982, following arrangement with Syria, Arafat now divides his time between Tunis and Baghdad.

often in co-ordination with Shiite Lebanese fundamentalist groups. He insists that the PLO has abandoned terrorist activities outside the occupied territories and that he had nothing to do with the hijacking of the Italian cruise ship, the Achille Lauro, in the eastern Mediterranean nearly two years ago. Arafat is not put off when it is suggested to him that years of armed struggle have not recovered for his people a single inch of Israeli-occupied territory. He tends to attribute this relative military impotence to the deep divisions of the Arab world, which he compares unfavourably with the single-

minded approach of Iran to its war with Iraq.

"Are you following the battles east of Beirut?" he asks. "Can you imagine that the Israelis could face one of those battles?"

Arafat is on rather more convincing ground, and chooses his words more carefully, when he talks about the political moves now afoot to set up an international conference on the Arab-Israeli dispute. "No doubt there is now a consensus for the international conference, which has been accepted at all international levels," he says.

He speaks approvingly of the European Community's declaration early this year in support of a conference. He even enthuses about recent signs of a change in US and Israeli attitudes. "For the first time the American Administration has accepted it in principle. Also a part of the Israeli—the Labour Party.

"It is true that they are looking for their international conference, not our international conference," he concedes in a reference to continuing disagreements over the structure of any such gathering, and in particular Israel's refusal to countenance PLO attendance.

"But that's all part of the game. I'm not expecting that they will accept my point of view directly." Nor does he regard the currently troubled state of the PLO's relations with Jordan as an insurmountable obstacle to negotiations. King Hussein broke off talks with Arafat last year, saying he had lost patience with the PLO leader's provocations over crucial Security Council resolutions recognising Israel. "This appeared at the time to bury prospects for a Palestinian-Jordanian joint delegation at any peace conference, which was seen as the only practical way of getting the PLO involved in the peace process.



As a way around that difficulty, Arafat, who still believes the rupture was prompted by American and Israeli pressures, now says he is prepared to join a united Arab delegation to the conference.

He does not object too loudly to suggestions that Jordan, Egypt and Israel have been trying to find alternative, non-PLO, Palestinians to participate, saying this merely proves that the Israelis "know in the back of their minds that they can't bypass the Palestinians."

And he says the ultimate goal must still be a confederation between Jordan and the Palestinians, because "we have a privileged relationship with the Jordanian people." But by far Arafat's warmest praise is reserved for the role being played by the Soviet Union, which he said helped set up the show of PLO unity at the Palestine National Council meeting in Algiers in April and is trying to mediate between the PLO leadership and Syria. The PLO chairman says he is likely to go to Moscow at the end of this month for talks with Mr Mikhail Gorbachev.

"No doubt Comrade Gorbachev is looking... at the Middle East with a new vision, and not only the Middle East. In all the international problems—and even in interior subjects—he has a brand new vision. It is a true vision of principles, and practical too."

"They began to deal directly with the Palestinians, and with PLO leadership. At the same time they are putting more efforts into the international conference, dealing with all its aspects and with all

the parties concerned."

Despite the flurry of international activity, however, Arafat clearly sees himself committed—as he has been for the last 18 years—to playing a waiting game. "We have to wait and see," is a recurrent phrase.

Maybe a conference will take place within the next year, he says, but if not it will be delayed for at least another two years until well after the 1988 US presidential election is out of the way. If not? "We have to wait. We are not in a hurry."

Things can scarcely be other wise. Neither Israel nor the US is likely to agree to talk to the PLO as long as it refuses to accept Security Council resolutions 242 and 338, which recognise Israel's right to live in peace within its pre-1967 borders. It seems equally clear that neither side can budge until a tangible, structured negotiation is within their grasp.

The point often overlooked, however, is that behind the PLO's strident rhetoric and Arafat's own colourful slogans, there is little doubt that he accepts that the state of Israel, in some form, is an irreversible fact.

"I am not dealing with ghosts," he says when pressed on this question. "They are my enemies and I have to deal with them in any of their forms. And they have to deal with me in my forms too."

It is Arafat's great merit that he has been able to create sufficient freedom of manoeuvre for himself within the fractious PLO to maintain at least the semblance of a belief that negotiation is possible. Since no comprehensive negotiation has

been on the cards up to now, his real ability to deliver and to override the powerful opposition within the organisation to any hint of flexibility has never been put to the test.

In the meantime, whatever the reality of his position, Arafat remains a potent symbol for Palestinians of their continued willingness to resist and of their rejection of attempts by others to impose a settlement.

The PLO leader dwells consistently on this theme: he believes that in spite of the passage of time and the birth of new generations who have no direct knowledge of Palestine itself, and in spite of all the efforts of Israel and others to make limited deals which shut them out, the Palestinians remain a force which will eventually have to be reckoned with.

If not, he says in one of his favourite phrases, the West will continue to face "the typhoon"—the growth of irrational hostile sentiment in the Arab world, of which he says Islamic fundamentalism is a part.

In 1956, when John Foster Dulles was making his plans, he was asked: "What about the Palestinians? There is nothing concerning the Palestinians in your plans." He said they were under the feet of the elephants. Those old generations knew Palestine would die and the new generation would be obliged to live spread in the diaspora.

"What happened? They are now facing the new generation, and the majority of them don't know Palestine. Western minds have come to depend on computers; they are not following the typhoon."

The justice of extradition

WHEN BELGIAN law enforcement officers arrive in Britain this week to escort 36 young men from Liverpool to face criminal proceedings arising out of the Heysel stadium disaster in May 1985, it will mark the end of an out-dated mode of extradition. The case will also highlight the comparative values of criminal justice among the countries of western Europe—all of them adhering to common basic principles of fairness, and the protection of civil rights.

The English system of extradition dates back to 1870 and reflects an amalgam of executive and judicial action. The request for the surrender of a fugitive criminal begins and ends with a Governmental response. In the first instance, the Home Secretary considers the foreign country's request, and if satisfied that the request is proper, authorises the judicial process.

The magistrates at Bow Street will then decide whether the evidence properly adduced raises a prima facie case, in much the same way as if he were hearing a case for the committal of an accused for trial in an English court. If he finds that there is a case to answer he commits the individual to prison in this country to await surrender to the foreign authorities. The Home Secretary must decide whether to issue his warrant of surrender, which allows the foreign police to remove the fugitive criminal from this country.

Much of the two-year delay in the Heysel case centred around an alleged defect in the production of evidence by the Director of Public Prosecutions who acts on behalf of most of the foreign Governments seeking the return of fugitive offenders. The importance of adherence to strict procedural requirements is manifest. There have been recent problems in getting fugitive criminals back to this country from the Republic of Ireland. Any system is bound to demand that a Government should have its tackle in order before it can get a fugitive criminal to trial. But any delays on the score of procedural deficiencies are minimal compared with the long drawn out process of evaluating evidence.

The Criminal Justice Bill now before Parliament will reduce the judicial element in the duopoly of extradition, ensuring that only the procedural formalities are observed. No longer will the courts test the quality of the evidence. The traditional function of evaluating evidence will be restricted to the current arrangements under legislation of 1967, for the return of fugitive offenders within the Commonwealth.

This change has been forced by the internationalism of crime—together with the increasing irritation of civilian legal systems who have to comply with an Anglo-Saxon system of elaborate committal proceedings.



The modern view is that if a treaty of extradition is negotiated between sovereign states it is presumed that there is a mutual trust in the two countries' legal systems. It is often an accident whether the accused is still in the country where the crime was committed. National boundaries ought not to cut off the long arm of the law but should telescope legal hands across the frontier.

So far as western European countries are concerned, there is common adherence to the principle that every accused person should stand trial before an independent and impartial tribunal.

Talk in Britain about an unfair trial for the 36 in Belgium is wildly misconceived. The Belgian judiciary is as impartial and independent as that in England. If it is thought that prejudice among the Belgian people towards the 36 Liverpoolians will spill over into the trial, it is well to remember that any such infectious bias would more likely be present were the 36 to be tried by 13 good men and true in England than by the three professional judges in Belgium.

None of this detracts from a pervasive worry about the forthcoming trial, one which would be just as prevalent were the trial to take place in England. It cannot be doubted that a serious criminal event took place in the Heysel stadium just before the European Cup Final between Liverpool and Juventus. The concern must be to decide where criminal responsibility lies. The law seeks to affirm liability on the individual. But how is he to be identified with the degree of confidence necessary for a criminal conviction.

And is there not a collective responsibility for which the criminal process is not an apt instrument for assuaging public anger over the incident? And what has happened to the Juventus supporters who form the other side of the battle line? At the end of the Belgium trial (whatever the outcome) the authorities on both sides of the English channel may bitterly regret not having ordered an international Commission of Inquiry to point to those who were responsible for the disaster—the stadium authorities, the Government authorities, the police, or the fans?



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THE ARTS

Architecture/Colin Amery

Aesthetic quality is the important touchstone

It promises to be a fruitful autumn. The summer election seems far away but its consequences are only now about to be felt. Yuppies on the Turkish beaches and property developers at Cap Ferrat have all had time to draw a brief summer breath before the cycle of rebuilding resumes its ferocious pace.

It is probably true to say that there has seldom been so much architecture and building about; recent RIBA figures show that architects are earning 10 per cent more than they were last year. Building contractors have so much work that they are petitioning the Government not to put the clocks back one hour in October — the lighter, longer evenings would allow more time to complete work. Bricks, which we all know are beautiful, are not always available, such is the

demand. There is even talk of mooring large ships in the Thames to house building workers for booming Dockland and that, before Canary Wharf takes off.

All this activity is not confined to the South-East. Mrs Thatcher's prompt post-election pledge, "the inner cities, the inner cities... no slacking" has yet to produce solid results, but there is no doubt that she has hit-jacked an area of concern into Government hands, away from the inactive moaners she so deplores. The new quartet of ministers, William Waldegrave, David Tripplet, Lord Young and Kenneth Clarke, look like a strong team to achieve results working with the Urban Development Corporations in the inner cities.

The Government's intention to introduce a major new Town and Country Planning

Bill, following up on the Department of the Environment's reforming consultation paper published last September, will focus attention to the vital area of the effect of party politics on the decision making process.

The proposal to abolish Structure Plans is probably a sensible one, but it is likely to antagonise county councils and conservation groups. Fears that new policies on agricultural land combined with new planning rules could lead to the concreting of the countryside will be heard loudly this autumn. New road building plans also indicate an extension of associated development.

Where will architecture feature in the forthcoming months of debate? It is itself at a fascinating crossroads. At Portland Place the new President, Mr Rod Hackney, has

already started the cleansing of the temple. The management report prepared for the RIBA by Hay Management Consultants and published in July exposed the chronic managerial weaknesses of the profession's own institutional organisation. Despite regular denials from successive presidents that anything was wrong it is now obvious that a totally ineffective government of the profession needs a very radical reform.

The departure of the secretary of the Institute, Mr Patrick Harrison, leaves the way clear for the new President to appoint a powerful new director-general. His task will be a complete overhaul of the professional institute which has long been a 19th-century organisation unable to tackle the changes in practice that any architect has had to cope with in his daily work. Mr Hackney is known for his political nose and enthusiasm for power. He is also a masterful manipulator of the media; his tasks as President are enormous.

Rod Hackney is not a man to stand at the architectural crossroads watching the traffic in all its confusion. He has already demonstrated some of the

powers that can be released if local communities are able to take matters into their own hands. There is an irony in this. He sees the architect as a member which is fair enough. He is not himself particularly interested in design and the visual consequences of his activities are not always appealing.

What the Royal Institute lacks (and even its occasional interested visitor, the Prince of Wales, does not yet supply) is a conviction that the aesthetics of design are at least as important as the economic, political and social concerns of architecture. The real debate the months ahead must find a way of making aesthetic policy the touchstone of architectural success.

There is plenty of opportunity. In the capital alone there are a multitude of major sites about to be redeveloped. It is worth listing them.

● Spitalfields Market, where there are three competing schemes, is likely to be the setting for some kind of classical revival. The return of a London street pattern is to be welcomed but the out of scale blocks reminiscent of Grosvenor Square and Georgian are not very inspiring as designed by Quinlan Terry. Another kind of classicism may grow on the South side of the Thames if Terry Farrell's housing scheme by Vauxhall goes ahead. This is one of the best things that Farrell has produced in terms of scale and massing by the river. If he can stretch beyond the derivative post-modern whimsy, this could easily be an important success as a comprehensive brief for the whole area. Richard Horden, winner of the Land Securities competition for an office block over the wall from Buckingham Palace

at Stag Place in Victoria (with Richard Rogers's participation in the associated shopping development), promises a kind of high-Tech approach that could be very intriguing. Houston and Paris meet at Victoria.

● The vast development north of King's Cross station and St Pancras, proposed by Rosehugh Stanhope developers, offers an amazing opportunity. The developers' love affair with American architects has produced the unlikely combination of Skidmore Owings and Merrill working with the adventurous Californian Frank Gehry. It is to be hoped this scheme will be published as soon as possible — it is too important to be left to the private wooing of planning committees.

● Smithfield, where the meat market is contracting, is the next place for a Covent Garden

style revival: is this to be London's Musée d'Orsay? It is certainly a wonderful chance for the City to make amends for the architectural unhappiness of the Barbican.

● It is now also the time for a new look at recent architectural history, as post-war buildings are considered for listing. Architectural students certainly love the 1950s, will they fight to protect the Royal Festival Hall and the wavy concrete roofs of 1950s housing estates?

If the autumn is a time for quiet consideration by the first side in the long evenings, then there is plenty to ponder on the architectural front. It is a time of change, debate and activity on many fronts. It is also a time to separate the wheat from the chaff. That separation is an aesthetic matter and one that must not be shirked.



Brandon Neffand's new architectural paintings go on exhibition at Fischer Fine Art in London on September 9: he is one of the few artists who paints the triumphs of modern architecture



Close-ups of three film directors

LOVE IS COLDER THAN DEATH
by Robert Katz, Jonathan Cape, £12.95, 234 pages

FELLINI
by Hollis Alpert, W. H. Allen, £12.95, 462 pages

WOODY ALLEN ON LOCATION
by Thierry de Navacelle, Sidwick & Jackson, £12.95, 462 pages

Both the world and the cinema screen seem duller places without Rainer Werner Fassbinder. A one-man success story, his career lasted 12 years during which he made a staggering 43 films and consumed an almost equally staggering quantity of drugs and alcohol. He died in 1982 at age 37, on the threshold of an international career.

Robert Katz's biography *Love Is Colder Than Death* is virtu-

ally unputdownable, thanks to his own skill and the magnetism of his subject. Fassbinder the debauchee adds fascination to Fassbinder the artist and vice versa. I once visited one of the German *Wunderkammer* movie locations. His acting troupe, quartered in a dingy Frankfurt hotel, waited all morning for their hungover director to materialise. Then he rolled blearily into view, got a ticking-off from his mother (who, as Katz points out, was a notable ogress in RWE's life, until he de-feminised her by putting her in his films), and then got to work. Soon the scenes were peeling off the shooting schedule at an alarming rate. Fassbinder directed the actors, wrote the dialogue at will, and generally behaved like a human dynamo on overdrive.

His best movies — *The Merchant of Four Seasons*, *Peppermint*, *The Soul*, *Lola*, *Venus* — have no like in modern cinema. Their faux-naïf or Hollywood-pastiche visual styles go hand in hand with a wonderfully complex approach to

themes and characters. Katz's book helps to explain the background that produced an artist whose political creed was "a plague on both your houses" as he freely pilloried both Right and Left in his films — and yet whose nonconformism was mixed with a tender regard for the rules and riches of movie tradition.

It is well known that he idolised the 1950s Hollywood director Douglas Sirk, famed for high-gloss weepies like *Magnificent Obsession*. But Katz argues here that Sirk's films were not just an influence, but the influence, that turned Fassbinder from a minor underground filmmaker (late 1960s) into a master-narrator and social chronicler.

Hollis Alpert's *Fellini* portrays a movie master with no problems in the area of longevity. Federico F is 88, the last survivor of his generation of great Italian filmmakers (*Fellini* and *Antonioni* and company) and still going strong. Indeed his new film, *Fellini Interview*, is not even mentioned in this book, which though breathlessly trying to keep up only

gets as far as Ginger and Fred. Alpert's book is thoroughly enjoyable, nonetheless. Though written without the maestro's co-operation, it did have his seal of approval. It contains telling testimony from those who have danced, briefly or frequently, through the eye of the Fellini hurricane: including Giulietta Masina, Anthony Quinn and Richard Basehart.

Less readable is Thierry de Navacelle's *Woody Allen On Location*. The outsider seldom believes, however much insiders

may insist on it, that film-making can be an immensely tedious process. Here at last is the book which should persuade him: a stupefying diary of the shooting of *Radio Days*. Navacelle seems to have no desire, or ability, to turn the bald facts of camera placements, rehearsals, technical problems, location moves into anything other than bald facts. Though Allen consented to his tagging along with the film, the director was clearly not of pearl of

wit or wisdom, and a pathetic leitmotif of waiting-for-the-master-to-speak threads the book. On page 166 we read that Woody "has a nice smile for me, but he seems exhausted." On page 326, "Woody wandered quite close to me today." Elsewhere Navacelle's account of events makes no leap of inspiration from flat itemisation into speculation or evocation.

Nigel Andrews

Obituary/Morton Feldman

The death of Morton Feldman on Wednesday at the age of 61 deprives American music of one of its senior composers and the world of new music of one of its most distinctive characters. Though he studied first with Wolpe and Riegger, Feldman established his individuality as a leading proponent of American experimentalism, an associate of Cage, Tudor and Brown, with

strong affinities with the abstract expressionist painters. The influences of the visual arts were to persist in his music. Though his early scores exploited all the techniques of indeterminism and graphic devices current in the 1950s and 1960s, it is probably the works he wrote in the early 1970s, when he returned to conventional musical notation, that will prove most persistent.

The delicate sound washes and general restraint of his music contrasted with the larger-than-life figure of the composer himself, who was a regular visitor to the European festival circuit. One consequence has been that Feldman's music has become more widely played and known in Britain than that of any other American composer of his generation. A.C.

Penultimate Fancies

Dominic Gill

Instead of submerging myself in the whole of the long after-noon-to-evening music-making, as I had the previous weekend, I chose instead to concentrate on just the middle and most substantial part of last Saturday's penultimate day of "his fancies, his toys, his dreams" — the South Bank's SummerScope series devised and chosen by Harrison Birtwistle.

Almost every programme has included an arrangement or setting by different composers of Machaut's *Hoquetus David* — a theme to link the sequence of programmes, and also a way of bringing in Birtwistle's words, "something of the present century" to music which is by now to us, after so many centuries of shifting perspective and technique, in many aspects of its preceding uncommonly arcane and strange. I'm not absolutely convinced of the value of the exercise, except as a convenient programmatic link: but the results have been interesting, and occasionally unpredictable.

Saturday's main programme, played by Music Projects/London under the founder and conductor Richard Baines, began with what seemed to be an unpretentious way one of the most original and poetical of the week's responses to the Machaut original. When he first heard *Hoquetus David*, Simon Holt (b. 1958) was struck — alone it seems among the week's commissioned composers — principally by the carillon-like effect of the piece, and his arrangement distils that "bell-music" into a six-minute essay of

chimes for three percussion groups playing only vibes, tubular bells, and crotales: delicate, but of strong and perceptible fibre, haunting in its resonance.

The programme's other premiere (and like all of the Machaut arrangements, also a South Bank commission) was *Preludes and Mores Dances*, by Philip Grange, a crisp and sharply-angled study in sonority and rhythmic pulse for piano, oboe, clarinet, and three percussionists. Grange himself calls it "a labyrinth" — and indeed its counterpoints fooled at least one of the percussionists into at least one major omission. But the neat, pungent effect remained: an intriguing, robust piece, which one looks forward to hearing again.

The rest of Music Project's programme was devoted to Luigi Nono's homage to the compatriot Dallapiccola, *Con Luigi Dallapiccola* — strong, lyrical music, darkly coloured, sprinkled with bells and crotales in its broad sweep woven with great feeling; and to a pair of contrasting accounts of Varèse's *Ionization* for percussion band, on versions which used (as the composer's alternatives allow) first high-pitched, and then lower-pitched, instruments — virtuoso performances both, deftly directed; it was surprising not so much how different the two performances sounded in their different instrumentation, but how many of the fundamentals of the music, and how much of its elemental force, remained precisely the same.

Everything in the Garden

Claire Armitstead

Giles Cooper's *Everything in the Garden* belongs to the time-honoured school of comedy that kills laughter stone dead. It starts out amiably enough in the "what if..." (in this case, "what if...") vein (in this case, what if a perfectly turned turn of phrase to supplement hubby's earnings?) and ends up an acerbic indictment of the sort of middle class morality which confuses propriety with discretion: it's all right to keep the local madam in the manner to which her clients are accustomed, as long as the wags propping up the golf club bar are unaware of it — or better still, if they are doing it too.

Cooper, a prolific writer whose contribution to radio drama is enshrined in the Giles Cooper awards, has suffered an undeserved popular eclipse since his death at the height of his career in 1964. The revival at Watford Palace, under Brian Stirling's direction, reveals a shrewd and sophisticated wit which demands and deserves a first class display case.

Everything in the Garden is a dangerous play because it fails so close to the very things it is satirising: in a production that elegantly recalls the brittle modernity of the early '60s, we have Paula Wilcox in lock-long eyelashes yearning for a chance to be something useful, not just a cabbage slaving away in the house, while her husband insists over his Daily Telegraph that he will not allow his wife to work. She collects silver for charity while he treats the grass (a crocus) with the latest in designer lawn-mowers.

Ingrained in the social satire is a parody, possibly more acutely apparent now than when the play was written, of contemporary media stereotypes: the faux-naïve flutterings of a crocus, Jenny reads in a television tradition which an-

gendered such sweets as *Samsara*, the good witch, in *Beautified*; more embarrassing is what appears to be a dig at *Look Back in Anger*: the bear and squirrel duologue that ends Jimmy Porter's rebellion in names of Jenny and Bernard, slyly reflected in the pet-prompting a loud discomfited whisper behind me, "who wrote this rubbish?" At that point, in the first act I was inclined to sympathise: it is in the second, when Cooper turns the knife in the wound, that one realises with what surgical precision he has opened it.

The stereotyping of Bernard and Jenny is turned on its head as he discovers the real reason the house is stuffed full of money. The ensuing gathering of suburban society to celebrate the "miraculous" windfall is outrageously adroit, pitting Victorian values against the urge for affluence and concluding that the two are perfectly compatible given one or two tweaks in the conscience. Thus the adolescent Roger (Austin Felleus) is sent to his room for mentioning circumcision while his parents debate with their friends how best to accommodate a brothel. In the background a game of wickets is conducted as if in running commentary on the sporting ethic which is being so flagrantly doubted on stage.

The production gathers momentum after a start which tends to be ponderous. Paula Wilcox has a crisp pertness that neatly sets up the dissonance between appearance and reality, while Jonathan Newth, as Bernard, is appropriately roly-poly. Sheila Burrell, as the Polish Jewish madam, and Jonathan Coy as the hectoring fashion artist stand beligerently, convincingly apart from the roomful of ciphers that comprise the rest of Woodfield Green society. In a revival that is well worth seeing.

Swan Lake/Albert Hall

Andrew Clements

Chalkovsky's *Swan Lake* may be the best loved and most widely staged of all classical ballets, but much of it remains utterly unfamiliar in the concert hall. The lullipops are frequently missed, the dramatic structure is unbalanced by the stylised nationalisms.

Tilson Thomas has long been a staunch advocate of Chalkovsky's ballets in concert, as of the composer's other disregarded orchestral works.

Much of this performance had a feeling of theatrical flair, though some tempi might have caused problems for dancers; even the moments of potential embarrassment such as the "Danse espagnole" were reprieved with castanets, were driven with a conviction that forestalled it. The LSO's playing, especially that of its woodwind, also went some way to justify the enterprise.

Earlier, Stravinsky's *Symphony in Three Movements* had been less convincing, lacking sinew and definition. It requires the kind of full-blooded assurance which Thomas and his orchestra displayed in the Chalkovsky; the impression was of a safety first run-through, tidy but unremarkable.

Schools Prom concerts in November

Twelve hundred of Britain's most gifted young musicians chosen from 20,000 at nationwide auditions will take part in the 1987 Schools Prom concerts at the Royal Albert Hall on November 23, 24 and 25.

A steel band from Milton Keynes and a dixieland band from Doncaster will rub shoulders with near-professional county youth orchestras and top national choirs.

Appearing as guest artists are the Barbican Piano trio, Mark Bebbington (piano), Eric Delany (drums), Elenid Owen (violin), and Bernard Robertson (organ).

The Schools Prom is presented by Music for Youth and sponsored by Commercial Union Assurance, Marks & Spencer, Music Industries Association, The Times Educational Supplement and WH Smith.

Arts Guide

Music/Monday, Opera and Ballet/Tuesday, Theatre/Wednesday, Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

September 4-10

Music

LONDON

City of Birmingham Symphony Orchestra conducted by Simon Rattle with Elizabeth Söderström, soprano; Gershwin, Catalano, Shostakovich, Nielsen, Sibelius and Prokofiev. Royal Albert Hall (Mon). (069 8212).

Royal Philharmonic Orchestra and Brighton Festival Chorus conducted by André Previn with Nigel Kennedy, viola, Walton and Ravel. Royal Albert Hall (Tue).

RBC Symphony Orchestra conducted by Gunter Wand. Stravinsky and Schubert. Royal Albert Hall (Wed).

Venezian Philharmonic Orchestra conducted by Leonard Bernstein with Peter Schindler, clarinet; Mozart and Mahler. Royal Albert Hall (Thur).

NETHERLANDS
Maastricht, Festival of Religious Music. Stargersburg: Musica Antiqua of Cologne with the Rheinische Kantorei and soloists; conducted by Herman Max Buchholdt. Tunder, Bernhard, Weckmann (Tue); Martinus Church: *Fractio Musica* with a programme of religious music from the court of Versailles (Wed); Martinus Church: The Tallis Scholars: the Spanish Renaissance School (Thur). (29 38 28).

PARIS
Ensemble Septuaginta conducted by Michel Laplante: 17th century German sacred music — Schutz and his contemporaries (Mon, 8.30pm). Saint-Séverin Church.

Bonnage to Nadia Boulanger, film and concert with composers, friends and pupils of Nadia Boulanger (Wed, 7pm). Concert-Recurrence at the Auditorium des Halles.

Novel Orchestre Philharmonique de Radio France conducted by Eusebio de Carvalho, Michel Leconsse, violin and alto; Ligeti, Philipps, Villa-Lobos (Thur, 8.30pm). Radio France, Grand Auditorium.

All the above concerts are part of the Paris Festival Festival (4904 0001).

WEST GERMANY
Berlin, Philharmonie: Philadelphia Orchestra under Riccardo Muti. Hindemith and Berlioz. (Mon and Tues); Berlin Philharmonic Orchestra, conducted by Carlo Maria Giulini, Schubert. Soloists are Barbara Hendricks, Helga Müller-Molinari, Keith Lewis, Justin Lavender, Andreas Schmidt and the Ernst-Seufft Choir. (Wed and Thur).

NEW YORK
Merkin Hall (Goodman House): Karl Weigl Festival. Lucy Shelton soprano; Hilda Harris mezzo-soprano; New World String Quartet, George Shirley tenor, Paul Silverthorne violin. All Weigl programme (Tue, 6.15 w. of Broadway (382 8718).

CHICAGO
Bavaria Festival: The final week of the festival features David Schrader's regatta on harpsichord, fortepiano, and organ. Scarlatti, Rameau, Mozart, Beethoven, Frescobaldi, Correa de Arana (Thur). Highland Park (726 4444).

Theatre

NEW YORK

Fences (40th Street): August Wilson hit a home run, this year's Pulitzer Prize, with James Earl Jones taking the powerful lead role of an old baseball player raising a family in an industrial city in the 1950s, trying to improve lot but dogged by his own failings. (211-1211).

Cas (Winter Garden): A self-styled children's poetry set to trendy music is visually startling and choreographically felicitous, but classic only in the sense of a rather staid and overblown idea of theatricality. (234 8522).

Red Street (Manhattan): An immediate celebration of the heyday of Broadway in the '30s incorporates gems from the original film like *Shuffle Off to Buffalo* with the appropriately brash and leggy hoofing by a large chorus line. (977 0020).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (224 8200).

La Cage aux Folles (Palace): With some unusual Jerry Herman songs, Harvey Fierstein's adaptation of the French film puns, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (737 3626).

Tin Tin (Bargain): Booth: The Tony's best play of 1986 won on the

strength of its word-of-mouth popularity for the two oldsters on Central Park benches who bicker unceasingly about life past, present and future, with a funny plot to match. (234 8200).

Les Misérables (Broadway): Led by Colin Wilkinson repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings Broadway lessons in pageantry and drama. It is not strict adherence to its original source. (239 8200).

Starlight Express (Gershwin): Those who saw the original at the Victoria in London will barely recognise its American incarnation: the skaters do not have to go round the whole theatre but do get good exercise in the spruced-up stage with new bridges and American scenery to distract from the hackneyed pop music and tramped-up silly plot. (388 8510).

Me and My Girl (Manhattan): Even if the plot turns out to be a minor version of *Pygmalion*, this is no classic, with forgettable songs and dated melodrama in a stage full of characters; but it has proved to be a durable Broadway hit with its marvellous lead role for an agile, engaging and deft actor, preferably Jewish. (947 0022).

Les Misérables (After London and New York, now Tokyo and the Japanese version of the Tony-award winning musical. The cast was hand-picked by the creative team of producer Cameron Mackintosh (from an astounding 11,500 hopefuls), then trained for nine months in a special "school" and rehearsed by director

John Caird. Costumes, set, sound, lighting have been supervised by the respective original designer flown to from London. *Tubo's Les Misérables* is a triumph. The best musical in town. (234 8200).

The Phantom of the Opera (Her Majesty's): Spectacular but emotionally nutritional new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Hal Prince's alert, affectionate production contains a superb act performance by Michael Crawford. A new, meritorious and palpable hit. (839 2244, CC 579 6131/249 7209).

The Balcony (Barbican): Sadly dated and heavy-handed opening to the RSC's Genet retrospective, not helping to fight suspicions that the RSC, certainly in London, is stretched way beyond its creative capacities. Terry Hands directs, Farrow's set looks like a cheap plink brobel and the actors, a dull lot, clump around on high boots in big bulging costumes. (828 8795).

Melon (Haymarket): Alan Bates predictably good in new Simon Gray, clumsily directed by Christopher Morahan, about a jealous publisher viewed in flashback from a psychiatric ward after a breakdown. Menapausal mutterings, not vintage Gray. (330 9532).

WASHINGTON
Cahoon (Opera House): Hal Prince again directs. Joel Grey as the seductive master of ceremonies in a Broadway-bound revival of the evocative musical of Berlin life in the 1930s. Ends Oct. 3. Kennedy Center (254 3770).

LONDON
Antony and Cleopatra (Olivier): Peter Hall's best production for the National Theatre he leaves in 1987 brings this great but notoriously difficult play to thrilling life, with Judi Dench and Anthony Hopkins as battle-scarred lovers on the brink of old age. Dench is angry, witty and ultimately moving. Best of the rest at the NT is Michael Gambon giving his finest ever performance as Arthurs Miller's doomed longshoreman in *A View from the Bridge*, Juliet

Stevenson in a fine revival of Lorca's *Yerma*; and David Hare's production of King Lear, Hopkins, a massive gnarled oak, which gathers force and more friends as it continues the repertoire (928 2252).

The Phantom of the Opera (Her Majesty's): Spectacular but emotionally nutritional new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Hal Prince's alert, affectionate production contains a superb act performance by Michael Crawford. A new, meritorious and palpable hit. (839 2244, CC 579 6131/249 7209).

The Balcony (Barbican): Sadly dated and heavy-handed opening to the RSC's Genet retrospective, not helping to fight suspicions that the RSC, certainly in London, is stretched way beyond its creative capacities. Terry Hands directs, Farrow's set looks like a cheap plink brobel and the actors, a dull lot, clump around on high boots in big bulging costumes. (828 8795).

Melon (Haymarket): Alan Bates predictably good in new Simon Gray, clumsily directed by Christopher Morahan, about a jealous publisher viewed in flashback from a psychiatric ward after a breakdown. Menapausal mutterings, not vintage Gray. (330 9532).

WASHINGTON
Cahoon (Opera House): Hal Prince again directs. Joel Grey as the seductive master of ceremonies in a Broadway-bound revival of the evocative musical of Berlin life in the 1930s. Ends Oct. 3. Kennedy Center (254 3770).

LONDON
Antony and Cleopatra (Olivier): Peter Hall's best production for the National Theatre he leaves in 1987 brings this great but notoriously difficult play to thrilling life, with Judi Dench and Anthony Hopkins as battle-scarred lovers on the brink of old age. Dench is angry, witty and ultimately moving. Best of the rest at the NT is Michael Gambon giving his finest ever performance as Arthurs Miller's doomed longshoreman in *A View from the Bridge*, Juliet

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Monday September 7 1987

A German chief for Nato

MORE THAN 30 years after its admission to Nato, West Germany has been asked to contribute to the alliance's second only to the US, has proposed that a German succeed Lord Carrington next year as Nato secretary-general.

Six men have held the job, traditionally held by a European as a counterpoint to American tenure of the post of supreme Nato military commander—two Britons, two Dutchmen, one Italian and one Belgian. Other nationalities now feel it is their turn.

Norway was the first to take the unusual step of formally nominating a candidate, Mr Kaare Willoch, an ex-prime minister, and now Chancellor Helmut Kohl has nominated Mr Manfred Woerner, his Defence Minister, to fill the post next summer. There are arguments in favour of both nominations but the German case seems intrinsically stronger.

Symbolic reminder

Many West Germans, and their allies, have long had a lurking fear that the federal republic, frustrated by the seeming impossibility of ever achieving any measure of reunification with East Germany except by stepping outside Nato, might one day go neutralist-nationalist. The fear is not greatly exaggerated. For instance, this week's historic visit to West Germany by President Erich Honecker of East Germany is only made politically possible by the current degree of popular apathy about reunification in West Germany.

Nonetheless, the Honecker visit will at least be a symbolic reminder of West Germany's interest in the east, if not pull towards it. It may also be all the more appropriate to anchor Bonn further in Nato by letting it fill the politically symbolic post of the secretary-generalship.

Holders of the post are servants of the Nato council of national ministers, and unlike EC Commission presidents, have very limited power of initiative.

However, managing US-European relations is a difficult job, and it is getting trickier. It places the secretary-general in the mid-Atlantic, where, as Lord Carrington is fond of saying, it is cold, wet and rather lonely. It puts a premium on quiet diplomacy, something for which Mr Woerner, who nearly lost

his current job three years ago over his messy dismissal of a senior German general at Nato, has not yet developed a reputation.

But the important issue of personalities aside, the general case for a German to fill Nato's top political post at this critical juncture in the alliance's history deserves to be stated. First, many Germans, including Mr Woerner, feel rather railroaded by Nato allies into the elimination of shorter-to-medium range nuclear missiles and abandonment of West Germany's own Pershing 1-A missiles as the basis for a US-Soviet treaty. A German secretary-general could help carry West Germany through the difficult implementation of such a treaty.

Second, West Germany effectively makes the biggest European contribution to Nato by providing the largest number of conventional forces in central Europe, playing host to the forces of six allies (with all the attendant damage and noise that their manoeuvres cause), and being the only European member (along with the US) to give regular military aid to poorer southern flank countries like Turkey.

A German secretary-general would be particularly well placed to argue against growing American criticism, that the Europeans are shouldering a fair share of the alliance burden.

Third, West Germany has a major role to play in the shaping of what is loosely being called "a European defence identity" within Nato.

Having a German running the political side of the alliance in Brussels would not tempt France back into the integrated military structure of Nato. Probably not even having a European, as opposed to American, Nato supreme military commander—as suggested by Henry Kissinger a couple of years ago—would achieve that. But the two new centres will take these days between Paris and Bonn. Mr Kohl's proposal this summer for a joint Franco-German brigade will probably not materialise. But the French did not reject it out of hand, and the two biggest super joint army manoeuvres later this month. A German successor to Lord Carrington could help further encourage French participation in the military organisation of the Alliance.

Broadcasting tests ahead

THE vulgar criticism of Thatcherite policy is that it is obsessed by competition and market forces. The true criticism is that the Government either does not understand what market-based policies are or chooses to ignore them when cherished interests are at stake.

The broadcasting White Paper to be published this autumn will determine whether broad-casting will join the notorious examples, such as housing and trade policy, where this criticism most forcefully applies. There are some distinctively unpromising signs.

The question is not whether deregulation will come, but in what form. Instead of fighting a losing battle against "commercial interests" broadcasters should concentrate on how minority and quality programmes can be preserved, and enhance the new environment.

Advertising finance

There are two categories of programme involved. There may be some drama, arts or current affairs programmes which could not pay their way in the purest market imaginable. For this reason the Peacock Committee suggested a Public Service Broadcasting Council—or Arts Council of the Air—which could support programmes from any source or on any channel. The existing Arts Council has its problems. But it is a good deal better than nothing. So would be an Arts Council of the Air which could experiment with different methods.

The second category of programme, which is far less frequently mentioned, is that which viewers would be prepared to finance under a pay-TV system, but which might not be profitable under an advertising-financed system.

The Home Office consultants, led by Mr Charles Jonscher, did not believe that consumer subscription could replace the licence fee for either of the BBC's two main channels. But they did recommend that on BBC2 and Channel 4 should be used for transcribing scrambled programmes onto videocassette recorders which viewers who paid for them

could see at leisure.

Secondly, Jonscher suggested that some late evening and weekend transmissions by BBC2 should also be scrambled. The background is that the BBC does not have the resources to fill its second channel with high-quality material without a direct audience contribution.

Thirdly, and technically most important, Jonscher advocated a common standard and payments system, whereby viewers could have an addressable decoder for all pay channels, whether satellite, cable or terrestrial.

It is the fourth Jonscher suggestion which tests the Government's concern for competitive markets. He showed that one, two or three additional terrestrial channels could be possible. These channels could be pay-TV financed without the expense of cabling all households or setting up Direct Broadcasting by Satellite.

Industrial strategy

It would be quite wrong if official attachment to a particular business venture blocked off alternative and potentially cheaper approaches. That would smack of the discredited industrial strategy of "picking winners." If followed, it would not augur well for Lord Young's tenure of the DTI.

The North Sea is past its peak but the oilmen are still busy, says Lucy Kellaway. The first of two articles

MORE OIL has been discovered in the North Sea in the first eight months of this year than in almost any year since 1975. The oil price has doubled, several new developments have been announced, unemployed rigs are restarting production and extra reserves are being found in many of the big fields.

For an industry that is officially past its prime, that is not bad going. But there is no escaping the fact that after a decade of advance, North Sea oil production is far from a decline. This summer it fell below 2m barrels a day for the first time since 1982 and, in spite of the subsequent recovery, it will never again reach its 1985 peak of 2.6m barrels a day.

Decline is inevitable, even though the North Sea may still contain more than the 7.5bn barrels of oil extracted so far. The four biggest fields, Forties, Brent, Ninian and Piper—which together account for about half of total production—are all past their peak, and the fields which will replace them are getting smaller and smaller. Indeed, the typical recent discovery is about a 20th of the size of Forties, the largest of them all with total reserves of 2.3bn barrels.

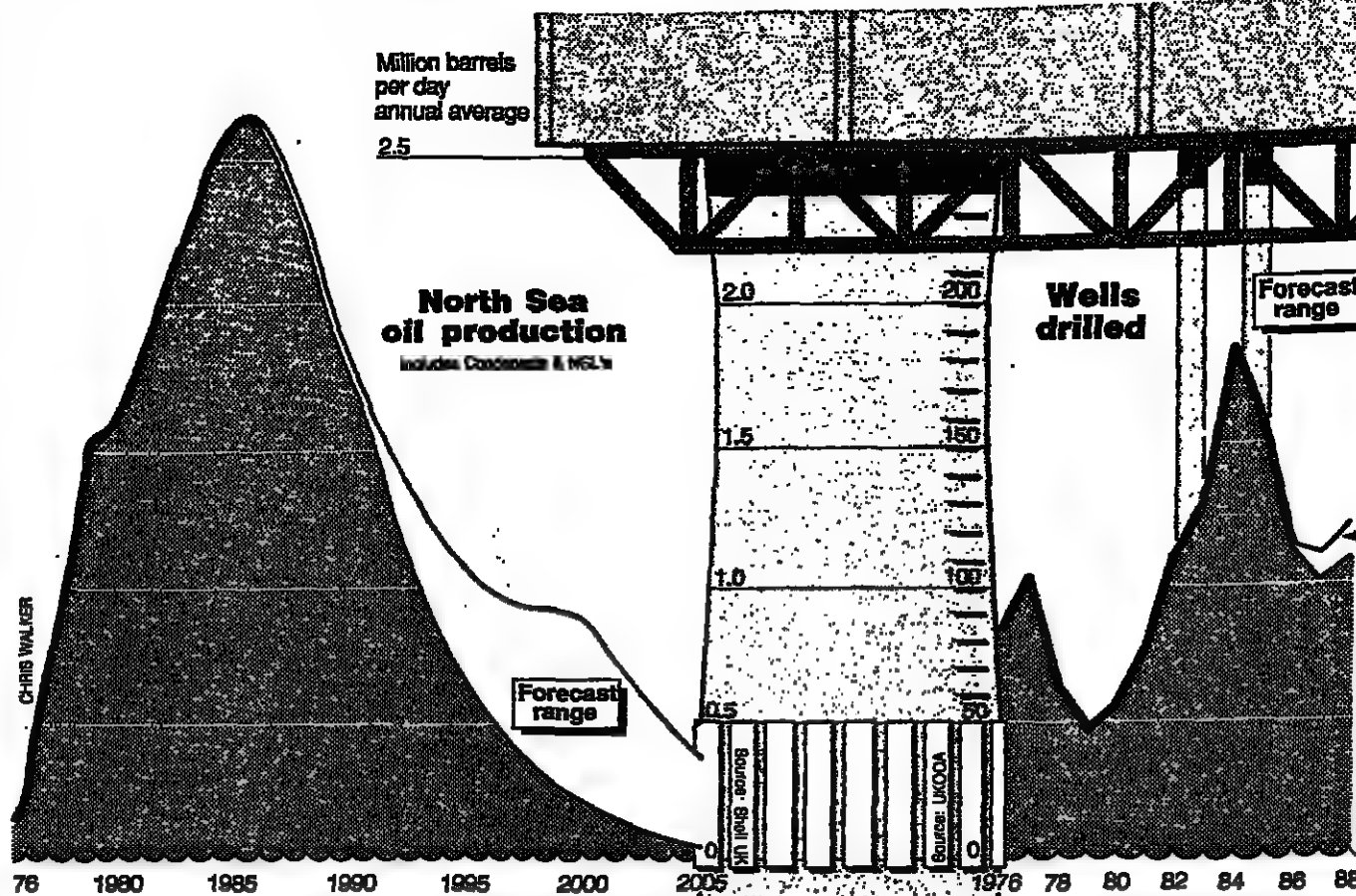
Yet the North Sea appears to be edging towards old age with more gusto than grace. After a cruel introduction to middle age last year, when its first experience of falling production coincided with a price crash, the last few months have demonstrated how attractive a mature oil region can be.

News of perhaps the most exciting discovery for a decade came at the end of last month as Kerr McGee, the Oklahoma group, struck oil 200 miles off the coast of Aberdeen in a structure which could contain more than 350m barrels.

Meanwhile, a host of oil companies, most of them European and American, are clamouring for North Sea acreage. About ten of them, waiting access for the first time, are submitting a group bidding for the UK interests of North Sea and General, one of the few bundles of assets up for sale.

However, to reconstruct these scattered signs into a picture showing a bright new dawn would be misleading. There are two distinct aspects to the flow of good news this year. The first is a simple resumption of activity caused by the recovery in the oil price. Indeed, the two largest developments being pushed forward by their partners, the Miller and Kittiwake fields, would have been on the way towards production by now if plans had not been turned inside out by the fall in price. Similarly, the pick-up in exploration is from a low base and is well below its peak of three years ago.

The other strand is more encouraging. Recent discoveries by Kerr McGee, Chevron, Arco, Amerasia Hess and others, as well as the recent doubling of remaining reserves in the Forties field, demonstrate that the North Sea is not played out. While the discoveries are insufficient to transform the underlying position—recent additions have at most contributed a year's oil production to total reserves—they at least show that some



Life goes on past Forties

medium-sized fields remain. Even though some doubt the profitability of the Kerr McGee and Chevron's similar Alba discovery, as the oil in each is sticky, continued interest in the North Sea—which holds just 3 per cent of the world's reserves—is justified. The chances of making a commercial discovery—about one in 30—is good, the political regime stable, and the tax system (notwithstanding inevitable industry complaints) fair.

By comparison, the Norwegian side still contains vast areas waiting to be explored. But it is regarded by most international oil companies as

less alluring than the UK swathe because of a "more onerous tax system and a more interventionist government."

"The UK sector of the North Sea is one of the most attractive places in the world for the oil industry to be. Even though it is a mature province, there is a lot of exploration potential," says Mr Keith Taylor, head of exploration and production at Esso UK.

But the size of that potential is anyone's guess. At worst, the North Sea is more than half spent. At best, more than three times as much as has already

been produced remains. According to the Department of Energy's "Brown Book," the statistical bible, oil in existing discoveries could be anywhere between 1.3bn and 15.4bn barrels, while the range for unproved reserves is even wider. On the Brown Book's most pessimistic assumptions, oil explorers might as well hang up their hard hats rather than comb the area for a mere 2.3bn barrels. On the other hand, there could be as much as 15bn barrels—equal to 30 years of consumption—waiting to be found.

How much oil is located will depend on its price. According to Mr Malcolm Ford, managing director of Britoil, this will need to rise to \$25 a barrel before exploration really picks up. Prices of \$30 or more may be needed to explore areas where big finds are likely: west of the Shetlands and in the Rockall Trough, where the waters are deep and the oil likely to be heavy and sticky. For example, BP's Clair field, north-west of the Shetlands, could be even larger than Forties, but the like-like consistency makes it uneconomic at present.

As well as determining whether the UK will still be in the big league of producers next century, the oil price will also dictate the speed at which some of the larger fields could be recovered, implying that the

listing fields are abandoned and set the pace for tapping new fields.

Most of the big fields have proved much more productive than initially expected, partly because years of high oil prices have encouraged the industry to invest in techniques like injecting gas or water into the reservoir to increase production. In the early days, it was assumed that only a third of the oil could be extracted from most fields, recovery of 40 per cent or more is now commonplace.

However, at low oil prices the incentive to recover every last drop of oil is greatly diminished. According to the UK Offshore Operators Association, at \$15 a barrel half the existing fields will have reached their economic limit by the mid-1990s, while every 35 fall in the oil price shortens a field's life by between 1.5 and 2 years.

At present prices companies have plenty of incentive to produce as much as possible from existing fields, especially as the expensive prospect of abandonment looms. Although the Government has not yet clarified its plans for abandoning the North Sea's towering oil structures, the aggregate cost could be as high as \$5bn.

According to Mr Martin Lovegrove of James Capel as much as 60 per cent of the oil from some of the larger fields could be recovered, implying that the

North Sea will be producing more than 100m tonnes a year by the beginning of the next decade, only 20 per cent less than present levels.

What happens thereafter depends on whether companies continue to push ahead with development plans. The evidence of the last few months is encouraging. Even though oil prices at \$15 a barrel are about half as high as expected when current development options were first aired several years ago, the industry has responded by slashing its costs. Thus most of the original development candidates will probably be developed anyway, perhaps a

There could be as much as 18bn barrels—equal to 30 years of consumption—waiting to be found

few years later than originally expected.

According to an industry survey carried out by the Grampian Regional Council, 35 oil fields are likely to be developed in the next 10 years, only three fewer than it was forecasting two years ago, before the oil price collapsed.

With the promise of rising oil prices removed, the industry has for the first time made cost-cutting a priority. The savings have a major effect on project economics, as they are felt at once. The 30 per cent cost reductions achieved for the two largest developments, Kittiwake

and Miller, have transformed unattractive projects into respectable money-makers.

The savings have been achieved in three ways. All the extravagant "gold plating" of the old days has gone ("these days we run our projects with a hand of iron," says Mr Ford of Britoil); technological advances have made platforms lighter and cheaper, while the absence of work in the supply industry (where some 1,000 jobs have been lost since the price fell) has meant more competitive bidding for work.

Even though the offshore supplies industry is looking a little stronger as a result of the pick-up in activity, and most of the cutting and squeezing has already happened, the industry is still operating at about two-thirds of capacity.

In offshore drilling, where the recession has been worst, rigs are being hired on daily rates of about \$14,000, about half the price of two years ago, although well above the \$10,000 being paid during the darkest part of last year.

As the wave of new developments translates into firm orders, oil companies may suddenly find it more difficult to contain costs, because offshore suppliers may increase prices to a level where they are making a respectable return.

Despite this, and the fact that the most obvious savings have already been made, further reductions may be possible. According to Mr Taylor of Esso, there is still room for further cuts of about 20 per cent, which, if achieved, will bring a new wave of development into play.

At the same time, as adjusting to lower oil prices, the industry has been going through an equally fundamental acclimatisation to the age of the small oil field. In the early 1970s the average discovery contained 300m barrels of oil, whereas most of the new fields being discovered contain well under 100m barrels, and the average is continuing to fall. These days a discovery of less than 50m barrels is not to be sneezed at, while a field on the scale of the Kerr McGee discovery is regarded as an exception.

The cost of producing oil from these little fields, of which more than 100 have already been found—need not be prohibitive. Both the tax system, which is designed to encourage such developments, and the fact that much of the equipment needed to develop them is already in place mean that they can be highly profitable. In most cases these fields pay no royalty or petroleum revenue tax. Those which can be developed sub-sea and tied into existing pipelines can make returns of 50 per cent or more.

In the North Sea of the future there may be three times as many producing fields as at present—perhaps a hundred or more. The seascape will look strangely empty. Under the sea, scores of small fields will be tied into existing pipeline systems, each producing oil in modest volumes.

There are huge uncertainties. The swing from deepest pessimism last year to guarded optimism shows how dependent the industry is, not only on the oil price, but also on technological ingenuity, and on sheer luck.

Tomorrow, Max Wilkinson looks at the macroeconomic implications.

Men and their women who matter

As hefts the most exclusive gathering in town, the Denis Thatcher club is not listed in the Washington telephone directory.

It was established in honour of these husbands and wives of themselves upstaged by their illustrious partners. Not surprisingly, the male members like to remain discreet.

Dr Chester E. Finn Jr, assistant secretary for educational research and improvement at the US Department of Education, appears a little too senior to merit a place in the club—until one hears about his Indian-born wife, Renu Virmani, a Lt Col in the US Army and director of a pathology at the Walter Reed Army hospital in DC.

Dr Finn was not available to speak about life in the shade. But his secretary kindly directed inquiries to one of the Club's associate members, Charles Horner of the United States Information Agency, whose wife, Constance, is director of the office of personnel management, and a member of two presidential commissions. Like the president and most of the US Congress was still on vacation, so one is left to guess at other members. Mr hot tip: Republican presidential contender Senator Robert Dole whose wife, Elizabeth, is the US transportation secretary, is currently charged with the toughest job in the US Government—making the planes fly on time.

Barry's fight

Washington without mayor Marion Barry would be like London without Big Ben.

But in the dog days of August, when the temperatures hit the late 90s with rising humidity to match, it was time to think the unthinkable as mayor Barry's star came down with a crash.

Barry—the son of a Mississippi sharecropper who has dominated local politics in the District of Columbia for nine

Men and Matters

years. He is a big man, built like a boxer, who at 51 still radiates a handsome confidence.

His years in the civil rights movement made him a hero in Washington's black community (which, it is often forgotten, makes up the clear majority of the city's population).

Now that very support is crumbling under the corruption which has seen 11 convictions of city officials including two deputy mayors. Barry is caught up in several grand jury investigations into fraud, corruption, and bribery in and around the DC government.

The mayor labels the inquiries "Mickey Mouse" efforts and castigates the local papers—the Washington Post and the Washington Times—both of whom he rightly accuses of being out to sink him.

"The only way I would get out of this office is to be carried out," said the mayor last week, words which could easily have been uttered by the Louisiana demagogue, Huey Long.

This is no place to take sides. But in defence of the mayor it should be said that the clean streets of Washington put London to shame, and the parking warden must rank as the most ruthlessly efficient in the western hemisphere.

Air space

Getting in and out of Washington by plane is no traveller's delight.

You either take a 45-minute drive into the wilds of Virginia to Dulles Airport, or you face the steamy summer mayhem of National Airport by the Potomac River.

deal more spacious, with easy parking and uncrowded terminals.

It could be the East Coast's secret weapon for beating the crush.

Sharing

Once in Washington, one of the joys is riding the Metro.

Air-conditioned and spotlessly clean, it does not "buck" like its sisters in New York and Chicago.

The big problem is the passenger. The other day your correspondent was reading a particularly informative front-page article in the New York Times about women and AIDS. A well-groomed woman moved closer and peered over the newspaper. Soon the intruder became intolerable and your reporter quickly turned the page.

"Excuse me," she said, "I haven't finished the article. Don't turn the page yet."

Such is communal life in the nation's capital.

Tribal warfare

This is the week that Washington springs back to life.

The President is back from his California ranch, the Congress reconvenes and the city can resume its favourite activity of chewing the political cud, pontificating about who is up and down on Capitol Hill.

When its collective thoughts stray from politics it will be to pray that 1988 will see the Washington Redskins football team back in the Superbowl world championship final.

Last year a scratchy team did well to beat the Chicago Bears—but were then whopped in a howling gale by the eventual champions, the New York Giants.

This year, the team has suffered a series of distractions. First, there was the corres-

pondence in the Washington Post, with readers complaining about the "outdated and racist" team name.

One reader stormed that it was not good enough to water down the team's fighting song, or invite a Native American (translation: a Red Indian) to sing the national anthem before the start of a game.

After that crisis of identity, the team was thrown further into turmoil by its owner, Jack Kent Cooke, aged 74, whose real estate fortune can only be measured in telephone numbers.

He has suggested that his team should move to bigger premises—so wit, a dome stadium which could house 75,000 spectators, some 20,000 more than its present abode at RFK stadium.

Now it is true that the present RFK stadium runs out 19,000. But the question remains who should pay for the super-dome?

Cooke naturally thinks the Washington authorities should grab the cash. The public, who can sniff a millionaire at 50 yards, think he should cough up.

All this while the poor team thinks about re-adjusting to the inevitable astro-turf of a covered stadium, far away from the lush grass of RFK, one of the few natural football arenas left in the land.

Has Casey told?

In Washington the most eagerly-awaited book of the month is Washington Post reporter Bob Woodward's opus on the CIA under William Casey, who died earlier this year.

The initial print run is a staggering 500,000, and the title of the book remains top secret.

Woodward, who made his name exposing the Watergate scandal, is coy about the content. "People say Casey's secrets died with him," he told an interviewer. "Well maybe they didn't."

This book should put the loosely researched spy-magazine in its place.

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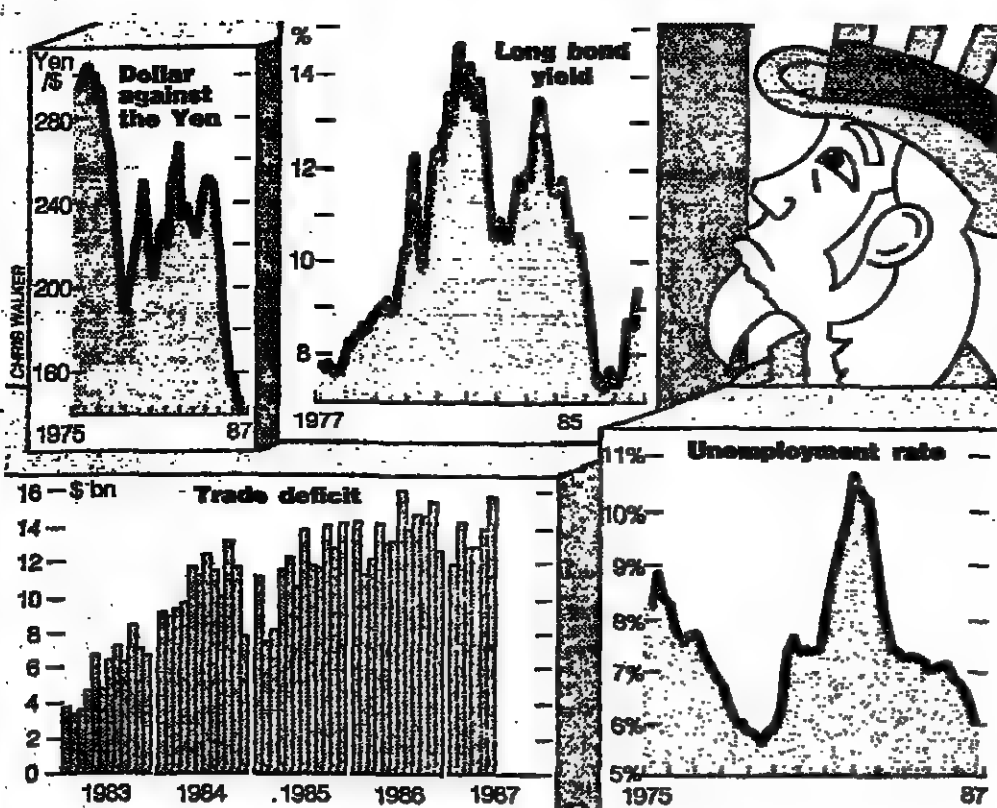
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Observer

THE US ECONOMY



Inflationary fears revisited

By Anatole Kaletsky in New York

LAST FRIDAY was only the beginning. With his decision to raise the Federal Reserve Board's discount rate from 5.5 to 6 per cent, Dr Alan Greenspan, the Fed's new chairman, has not merely made a long-awaited move to put his mark on economic policy and bolster the falling dollar. He has also effectively confirmed the market's instinctive feeling that the US economy has passed the low point in a decade-long cycle of interest rates and inflation.

Chalmers J. Munn, IN: He may thus have ushered in an era of steadily increasing borrowing costs that is unlikely to end until the next recession, not expected until 1989 or 1990.

Whether such a dramatic interpretation of last week's events proves right will depend on the behaviour in the next few months of three economic indicators—the dollar, inflation and economic growth. The short-term market focus will be on the dollar—especially this week, as the financial world waits with trepidation for the release of US trade figures on Friday. These are expected to show a deficit of around \$16bn, worse even than the record figure of \$15.7bn which preceded last month's run on the dollar.

But in reality the trade figures for this month or next, however bad or good they might be, are probably only marginally relevant to the course of US interest rates and Fed policy in the next year or so.

Most economists still believe that the monthly deficits will fall back after the summer into the \$11bn to \$13bn range, where they have stabilised before June. Forecasts for 1988 generally suggest a further decline to around \$10bn a month.

But even these "favourable projections" will leave the US dependent on foreign capital inflows of \$100bn a year or more until the middle of the next decade. That guarantees that the dollar will remain vulnerable to any switch in foreign sentiment or setback in domestic policy. It also suggests that the dollar's long-term decline is inevitable, and that the US must find a way to compensate for the country's loss of competitiveness in the early 1980s, given that the US has also failed to stabilise its trading partners to pursue full-employment policies since then.

Dr Greenspan had made it clear before he joined the Fed that he shares the long-run view that the dollar is overvalued. His studied silence during the chaos in the foreign exchange in the past few weeks, along with the noticeable lack of any mention of

the dollar in the Fed's statement on Friday, suggest that he may still hold that view.

A reasonable conclusion might therefore be that the Fed's concern about the falling dollar is focused less on the Lousie agreement to stabilise exchange rates as an end in itself, and more on the potential impact of a depreciating currency on US inflation.

What Dr Greenspan is probably trying to do is neutralise this domestic inflationary effect as far as possible by monetary means. If this could be achieved, then the slide in the dollar itself need not be worrying and could even be welcome.

Monthly inflation figures this year have averaged an annual rate of just under 5 per cent, compared with the 3.1 per cent achieved last year. Most of the difference, however, has been

due to the switchback in energy costs and, to a smaller extent, in food and other commodity prices. The underlying inflation rate, excluding energy and food costs, has accelerated by less than one percentage point from last year's comparable figure of 3.4 per cent. Commodity prices were bound to strengthen some time from the depressed levels of the mid-1980s. Meanwhile money supply numbers have been running consistently below the Fed's "monitoring ranges" for the first time in five years.

Taking all these factors together, the 31 leading economic time series surveyed last week by Blue Chip Economic Services came up with an average inflation forecast of 3.8 per cent in 1987 and 4.6 per cent in 1988. Even the most pessimistic of these forecasters expects no more than 4.1 per cent inflation this year and 5.1 per cent next.

Why then are Dr Greenspan and the bond market apparently so worried?

The answer lies in the present rates of growth and unemployment in the US economy—and even more importantly in how those rates might be affected by further dollar declines.

The problem is not that the US economy is overheating. Although there has been a healthy pickup in industrial production since the spring, this has come after nearly 18 months of very sluggish growth in manufacturing and sharp declines in the extractive industries following the collapse of oil prices. GNP growth has accelerated slightly, but only in comparison with last year's doldrums. Neither the second quarter's GNP growth of 2.3 per cent, nor the 2.5 per cent rate expected for 1987 as a whole by the Blue Chip forecasters nor the 2.9 per cent

they foresee next year looks much like overheating. Over the past 12 months, in fact, the US economy has been treading on a knife edge between inflation and recession—mostly leaning to the latter as corporations have cut back borrowing and investment and consumer debt has climbed to unsustainable levels.

In a normal business cycle, the economy might already have been heading clearly downwards after the second-longest continuous expansion in history. The danger of a serious slump would have been further aggravated by the instabilities built into the financial structure and by the size of a federal budget deficit which will make it difficult to use expansionary fiscal policy to pull the economy out of the next recession.

By factoring in the falling dollar, however, it is possible to present a picture where over-expansion, rather than recession, is the greater threat.

So far the decline in the dollar has stimulated export industries just sufficiently to overcome recessionary forces building up in the economy. As the dollar will tend to turn out to be smaller or less than expected—because too many US exporters have been put out of business already or because demand contracts in other countries as a result of their currencies rising. A tightening of monetary policy could then tip domestic US demand into recession without a compensating boost from foreign trade.

Unfortunately, there is an equal and opposite danger if the Fed should tighten too abruptly. The stimulus provided by a lower dollar could turn out to be smaller or less than expected—because too many US exporters have been put out of business already or because demand contracts in other countries as a result of their currencies rising. A tightening of monetary policy could then tip domestic US demand into recession without a compensating boost from foreign trade.

At present few economists are worried by this danger. The general expectation is that the next recession will not begin until sometime in 1989. Until then, the falling dollar will go on boosting exports and corporate profits. This will keep up the steady rise of stock prices on Wall Street and help to maintain the atmosphere of financial euphoria that is inspiring American consumers to spend and borrow beyond all previous records.

If this analysis is right, a pre-emptive touch on the brakes from Dr Greenspan will not come amiss. But if it is wrong, the economy is already weakening, a rising trend in interest rates could yet tip the US into a premature recession.

This, of course, is an outcome which Dr Greenspan will seek to avoid at all costs, particularly just before a Presidential election. Yet a recession in an election year is precisely what Mr Paul Volcker engineered in 1980, after he halved the discount rate in 1979 to defend the dollar. The situation may not be anything like as precarious today. But the record shows that few economists or even Federal Reserve Chairmen have been much good at predicting recessions.

A fresh approach to holidays

The case for house-swapping

By Malcolm Rutherford

HERE IS a way for someone to make some money while performing a service to a lot of people and also helping to solve a family holiday problem. It is called house-swapping.

Of course, it exists already, though mostly on an informal basis. All you need are two families of broadly compatible size and interests who want to swap houses for the holidays. It includes a car swap; the car is left behind outside the house or at the airport for the swappee to pick up. The only cost, apart from normal living expenses, is the airfare.

Some agencies circulate lists

More people could do this if they thought about it, and without any call for an intermediary to bring them together. It is also possible to do it by placing an advertisement in the personal columns of a newspaper: "English family of four seeks house exchange in August." But it must be quite hard to know which medium to choose, especially if you are seeking a swappee in, say, Tennessee.

Americans have the same problem the other way round. They have very little idea how to reach the European market. Besides, it is difficult to know how to describe yourself, and your requirements, without going to exorbitant and possibly off-putting lengths. Do you make it a pre-condition, for example, that the swappee must on all accounts agree to look after the cat in the style to which it is accustomed?

Some agencies already circulate lists. If so, they are not very well-known and there is plenty of room for others to come in, for this should be one of the growth service sectors of the future.

It would be possible to start by being very ambitious: "House-swaps worldwide" or "Exotic house-swaps." But it might be better to go for a more modest, regional approach at the beginning. Others will have their own preferences, but I would suggest a tie-up between London and the Amer-

ican south as an untapped market.

There are several reasons why such a venture, properly handled, seems bound to succeed. The southern states of the US have still not been fully rediscovered by the British. Yet there is, by now, plenty of history. St Augustine in Florida is quite as interesting as some obscure parts of Italy. Savannah, Georgia, reveals a lot about 18th-century England.

At the same time, American southerners are still breaking out from the past. A surprising number of them have hardly ever been to the north, let alone to Europe. It is Europe they want to go to, and especially England.

Nothing against Scotland here. They regard Edinburgh as within easy reach once they are in London, as, by American standards, it is. So incidentally, it is Paris for the odd weekend, not to speak of Dublin or Cork. But it is London, with its theatres and cultural attractions, that is the centre.

Americans also undersell themselves

The problem for many of these Americans is that they do not know how to arrange the exchange. An agency set up to put them in touch with potential London house-swappers would be into very good business by charging a small commission.

The Americans also undersell themselves. You're the second English family that's been through," said the sales lady in a shop in a small town in South Carolina. "You mean today?" we asked. "No," she remembered. "The other one was in April." Yet this was in one of the most beautiful parts of the world that one could wish to see.

The only harsh words we ever heard in the south were from Bostonians complaining at the southerners' slowness. Thus one can see why the south prefers Europe and why Europeans might prefer the south if they knew more about it.

As it happened, our house swap was done without an intermediary. But the business is there for the taking.

A strategy for electricity

From Mr A. Sykes and Professor G. Robinson

Sir,—The timing of Mr Lyons' latest letter (September 1) is unfortunate for him. He assures us that private generators could not better the performance of the present system. That statement will seem surprising to many people until they turn to page 16 of the same issue where it is reported that Mr Lyons' union is making clear to government that it would not permit private power station owners to reduce manning levels below those now established. There could hardly be a clearer admission, from those who know, that private operators could reduce the industry's costs. They should be allowed to do so in the interests of energy consumers.

Mr Lyons is also inconsistent. According to him, no one has produced an empirical evidence "on the superiority of competitive generation of electricity." How could they do so since, as Mr Lyons explains, nowhere in the world is there "effective competition" in power generation? There are, in fact, firm foundations in the work of economists (both theoretical and applied) for the view that injecting competition into monopolies is beneficial. Such benefits are especially likely when the monopoly concerned has for over 40 years enjoyed secure interference and has been used to support the British coal industry and British plant manufacturers. Competition in generation would reduce costs, ease the burden on consumers, reduce the politicisation of decision-making and allow competitors to set real performance standards for managers in place of standards imposed by civil servants.

An argument advanced by Mr Lyons in earlier letters and articles—that the "market order" already maximises efficiency—is quite incorrect. The merit order merely minimises, for the CEBG system as a whole, operating costs which have already been determined by the investment decisions of a monopoly and by the manning and operational practices of unions in that monopoly. No doubt present employees of the industry believe they are already operating at efficiency. But they are victims of an ageing environment, set for them by government, which shields them from competitive pressures.

There is a considerable opportunity in the forthcoming electricity privatisation to change the structure of a key industry so as to benefit energy consumers and indeed the British economy as a whole. The opportunity can be seized only if competition is introduced into the industry. Another British Gas style privatisation, whether induced by the desire for revenue or by the fear of union action, would be useless. The Government might as well leave the industry as it is and leave the

Letters to the Editor

task of liberalising electricity supply to a successor.

Allen Sykes (Professor) Colin Robinson, C/O University of Surrey, Guildford.

Tighter gun controls

From Mr F. Wickham

Sir,—Mr D. Savers (September 3) asserts that "Parliament will have to decide whether the protection of the individual from violent death is compatible with the private ownership of guns. Sporting weapons cannot be excluded from such a decision when they are so popular with the criminal." He does not say how many murders are committed by criminals armed, with 22 rifles or pistols (fewer, I am sure, than with kitchen knives), but he has no hesitation in seeking to end the sport of target shooting with these weapons and, presumably, this country's participation in international competitions. Does he also think that private ownership of motor vehicles should be banned to protect the industry from violent death and deny their use to criminals?

F. V. Wickham, 23, Anselm Road, Pinner, Middlesex.

Cartels and munitions

From Mr V. Korah

Sir,—I am surprised that an official from the European Community (August 28) should have said that a cartel between undertakings relating to munitions and war materials is not subject to the EEC rules of competition. Article 233 of the EEC Treaty provides that "Any member state may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material."

The cartel does not seem to have been a state measure. It is widely believed that Article 223 excludes the armaments industry from the EEC Treaty, but its words are far more limited. Since undertakings from several member states are said to have joined the cartel, the Commission of the European Communities, acting in collaboration with the Swedish authorities in pursuance of the Free Trade Agreement, would form

Accidents at work

From the National Health and Safety Officer, General, Municipal, Boilermakers and Allied Trades Union

Sir,—It is a sad reflection of the times when our proposals to deal with the unprecedented rise in accidents at work, which we see as merely restoring "basic standards of security and dignity for workers and the public," can be described as "hopelessly ambitious," in your report (August 29) on health and safety on the shopfloor.

Although the Conservative government, which engineered this return to Victorian standards of labour conservation, appears reluctant to act even when heralds of free enterprise create mayhem, we feel that our proposals for stronger laws and heavier penalties will soon command sufficient support to be enacted.

Our recent report on the UK chemical industry predicts that the major disaster required to jolt the government into action, is just around the corner; the 1986 accident figures will be worse than those for 1983 that you reported; large, responsible employers are increasingly concerned about cost under-cutting by their less scrupulous competitors who spend little on risk control; small employers need the co-operative provision of line management training, technical expertise and solutions to their hazard problems that many of them are now asking for, and which our proposed work environment fund can provide; the collective co-operation of employees is being re-discovered as an essential part of risk management, providing new legitimacy for union safety representatives; insurance companies are increasingly concerned about compensation claims for the 10,000-20,000 occupational disease deaths every year; and television documentaries will soon fuel the public's anger over the insultingly low price of lives and limbs lost at work today.

The contrast between prison sentences for the desperate unemployed who steal leaves from supermarkets, and maxi-

mum fines of £2,000 on chemical companies that kill, maim and hospitalise dozens with their explosions or toxic releases that additionally cause hundreds to be evacuated from their homes, should evoke outrage from most people and politicians—if we can only get the message home to them.

David Gee, Thorne House, Rusley Ridge, Cloggett, Essex, Surrey.

This quaint concession

From Mr J. Griffith

Sir,—Ralph Atkins (September 1) lists a number of factors behind the runaway rise in house-values in the last 16 years, and correctly draws some inferences about the dangers threatening the whole stability, social and economic, of our community.

He fails however to touch one obvious exposed nerve in this area of the body politic: the arbitrary exemption from CGT of increases in the value of one's "principal residence." I am among those who have benefited to a modest extent from this quaint concession, for which I have never come across a rational justification on ethical or financial grounds, nor can I think of any. Yet its pernicious effects are plain for all to see: the younger mortgagees up to the hilt and beyond to acquire a costly home, because the higher-priced conditions about the appreciated faster and made a bigger tax-free gain when the time comes to sell; the elderly often stay on in houses bigger than they need (when a small flat would often suit them better) for a similar reason. Others again acquire properties as a "hedge against inflation," which not infrequently, in cases near where I live, remain unoccupied for months on end. These and other related considerations have combined to create an ever more acute shortage of housing, especially in "desirable areas" (eg, within 50-80 miles of London) and lifted prices to absurd levels. By contrast virtuous citizens elsewhere cannot move into this area of sham prosperity because houses in their part of the world do not command a comparable price in a sale. This has affected job-mobility and contributed in no small measure to the present divisions within our society.

The solution to this very real problem is too simple: repeal the clause in the financial legislation which grants this socially damaging exemption, and the cure will follow quicker than even the most optimistic may dare to hope. It will follow more slowly.

John G. Griffith, Jesus College, Oxford

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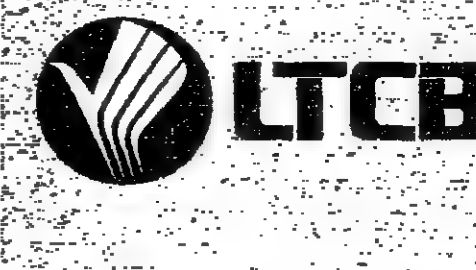
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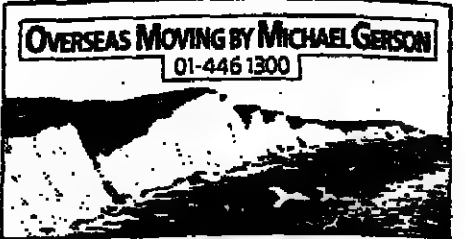
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FINANCIAL TIMES

Monday September 7 1987



Gordon Cram on Wall Street

Gearing up for Labor Day ritual

LABOR DAY is being treated with special significance this year by workers at General Motors. It marks the 50th anniversary of the Flint sit-down strike which led to GM's recognition of the United Auto Workers and the signing of its first negotiated labour contract.

The UAW's grand marshals, while spending this long weekend re-dedicating union halls and unveiling a monument to the stoppage, have some other business to attend to. This has many elements of ritual, but is by no means ceremonial: the current wage bargaining round is under way with meetings continuing at Ford, which the union has made its focus this time round.

Ford is healthier financially than GM, the battered industry leader, and hence is being raised in Detroit and on Wall Street that GM is ill able to afford an industry settlement anchored to Ford.

The UAW says such comments are part of a recurrent management line, as is GM's insistence that it should be viewed in the talks as a special case because of the company's vertical integration, which provides thousands more in-house jobs making components than the other big two, Ford and Chrysler.

This was the strategy which gave GM its early post-war strength. Later a more competitive sourcing of parts, from low-cost component producers in Asia and elsewhere, helped give its rivals a widening edge.

While the company will be making this point repeatedly in the labour talks, it is also seeking to change the parts structure, whether through closures, disposals or a move into joint ventures. The plan is described as a top priority by Mr Robert Stempel, who became president at the beginning of the month. He hopes to emerge with a reshaped components side within 18 months.

Disparities such as these among Detroit's big three help to explain why, according to brokers' forecasts, the maker of all those Cadillacs, Chevrolets, Pontiacs, Buicks and more will again this year keep well under 4 per cent of its revenues as a profit. Chrysler is tipped to take more than 6 per cent of sales to the bottom line and Ford nearly 8 per cent.

Comparing GM more widely, a study by Oppenheimer & Co. says it is at Wall Street's only blue chip (the court-protected Texaco aside) which makes a profit, pays a dividend, and yet has its shares selling in the market below book value. They closed on Friday at \$87.54 compared to book value of \$97.54 a share.

That, and almost any other measure of GM's financial standing and market rating, is blurred, however, by annual accounts which were recorded with horror last time round by the analysts who had to sift through them. Drexel Burnham Lambert's Mr David Healy described them as 'an accounting course in themselves' with manifold changes in practice and consequent special items.

More of these may be on the way as the group becomes less conservative in the yardsticks it uses to do its sums. Most important, it is considering taking longer depreciation periods on investment in new tools and equipment. The sectoral specialists guess that this alone could boost earnings per share this year by \$2.50, much of the combined annual effect of tinkering which showed up in the 1987 interim.

The company says that this latest mooted change in policy remains under review and it would merely bring it to towards the average for industry practice. But it is evidence of GM's strong desire to present a better picture of itself to a usually unexcited market.

Assuming depreciation is left alone, analysts' forecasts for the full-year outcome average around \$8 per share, ranging as much as a dollar either side. Mr Healy at Drexel remains neutral but a number of other Detroit watchers are according the group under its new management a little more allure.

Mr Donald DeScenza of Nomura believes that the automotive market as a whole is facing a pronounced contraction, particularly at the profitable luxury end, but would select GM for those investors who are compelled to participate.

At Paine Webber Ms Ann Knight has for the last six months rated the stock attractive, although noting the aggressive customer incentives that GM is now using in order to shift inventories.

Across of unsold cars would quickly become less of a problem if the wage talks break down and a strike ensues. There is no immediate prospect of that, but, just in case, Mr Healy is offering to quantify it. A total North American shutdown, he says, would clip GM's full-year per-share earnings by 75 cents for every week it lasts.

Turkey announces early date for elections

BY DAVID BARCHARD IN ANKARA

THE ALMOST proverbial good luck of Mr Turgut Ozal, the Turkish Prime Minister, seemed to be holding yesterday as results came in from Turkey's referendum on the future of 242 banned political leaders.

Just before the first results were announced, Mr Ozal said that he had decided to hold a November general election, a year ahead of schedule. But he still has to get President Evren and the 400 member Turkish National Assembly to agree to an early poll.

The announcement, which was clearly designed to steal the initiative from his rivals whatever the referendum result, was swiftly followed by the news that the two sides were neck and neck.

With one-third of the votes counted, there were 51 per cent in favour of allowing Mr Ozal's opponents back into politics, headed by the ex-prime minister, Mr Suleyman Demirel, and 49 per cent against.

It has been widely assumed in Turkey in the last few weeks that the 'no' votes would represent something like an accurate test of the strength in the country of the ruling Motherland Party.

If so, Mr Ozal must draw considerable comfort from these results which follow an exhausting and often controversial referendum campaign in which he appeared to be losing the initiative to Mr Demirel in recent weeks.

The fate of Mr Demirel and another ex-prime minister, Mr Bulent Ecevit, therefore hangs on a few percentage points. If they are allowed to return to politics, it will make a dent in Mr Ozal's position, but a much slighter one than seemed likely at the beginning of the summer.

However, many Turkish voters may find it difficult to accept the exclusion of the former leaders by such a narrow majority and Turkish politics may become increasingly stormy.

There was relatively little violence during the poll by Turkish standards, though 15 people were hurt in one clash.

The country's three largest newspapers had yesterday's issues seized by Istanbul police for violating election laws requiring newspapers to be neutral on polling day.

There could be several upsets in Turkish politics before November.

Mr Ozal is likely to invoke a sanction, not used until now, in the 1982 constitution. This would strip MPs, who change parties, of their membership of the National Assembly and deny them the right to stand in the next elections.

This would deter a large number of deputies from Mr Ozal's own party who are believed to be negotiating to join Mr Demirel's camp and run on the ticket of his True Path Party in the general elections.

Brazil seeks to securitise bank debts

BY ALEXANDER NICOLL, EUROMARKETS EDITOR

BRAZILIAN officials have begun an intensive round of discussions with foreign bankers and governments on the country's radical plan to convert half its \$68bn debt to banks into tradable securities.

Mr Fernando Bracher and Mr Antonio de Padua Seixas, Brazil's top debt negotiators, saw Sir Kit McMahon, chairman of Midland Bank, in London last night and are due to meet other senior British bankers as well as Bank of England officials today. They will join Mr Luis Carlos Bresser Pereira, the finance minister, for a meeting in Washington tomorrow with Mr James Baker, the US Treasury Secretary.

The Brazilian plan promises to alter the course of the five-year-old debt crisis significantly.

The government, which suspended interest payments to banks in February, argues that all sides must now accept a new reality. The goal of a quick return to the capital markets no longer seems an adequate target, given the discount in the secondary market and the large loss provisions banks have made.

A Brazilian official said yesterday. Traditional restructurings, the official argued, involve undertakings which are recognised by all parties to be hollow. He pointed out that Mexico's debt traded at a similar discount to Brazil's in the secondary market even though it has an International Monetary Fund and debt rescheduling agreement in place.

Under the Brazilian plan, which officials say is subject to negotiation in order to make it acceptable to banks, about \$30bn of existing bank debt would be converted dollar for dollar into bearer securities with a maturity of about 30 years.

The bonds would bear fixed interest at a rate below that currently obtaining on Brazilian loans. The terms would not fully reflect the discount in the secondary market, where Brazilian debt is at some 55 per cent of face value.

The plan would contain formulae under which repayments could be accelerated depending on the performance of the Brazilian economy. Though some form of external guarantee would be welcome, the official argued yesterday that the economy itself should be the best guarantee of the bonds' repayment.

If the plan were to go through, Brazil's external financing would be increased from the \$7.1bn which it has been projecting to cover interest payments this year and next. It still plans, however, to seek \$4.2bn of new money to cover interest payments due to banks this year, as well as money to cover the half of the debt that is not securitised.

Brazil's eventual plan is that all the bank debt will be securitised.

Foreign bankers have so far reacted cautiously to the plan.

Third World's missing millions

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT, IN LONDON

THE PICTURE of the moneyed classes in Latin America sailing away millions in offshore bank deposits or in capital flight. But its slide into economic decline is one of the most potent images of the Third World debt crisis.

Now, a new study into capital flight by the staff of the International Monetary Fund has attempted to define and quantify the problem and work out what to do about it.

Capital flight certainly represents an obstacle in the minds of creditors to lending more money to troubled debtor countries.

But the real problem is broader. It means that the pace of growth of an economy is retarded. It leads foreign indebtedness to increase, raises the costs of carrying public debt, increases the share of the public sector in investment and erodes a government's tax base.

But, as the study points out, capital flight is usually a symptom of fiscal and monetary policies which give residents strong incentives to acquire foreign assets.

The motive for capital flight, it says, is 'a resident's concern that, if his wealth were held domestically, it would be subject to a substantial loss or impairment.'

But the difficulties of quantifying this are complicated by the fact that not all private capital outflows are capital flight. Furthermore, money which may have left a country for legitimate reasons may turn into flight capital if the economic outlook changes at home.

The study suggests capital outflows of capital importing countries in the 11 years to 1985 amounted to about \$250bn, accounting for one-third of the increase in these countries' external debt.

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may have been repatriated in total to the 10 main Third World debtors.

As suggested by the popular image, the IMF study shows that capital flight appears to have been most significant in countries with external debt, particularly those in Latin America.

Earlier this year made an additional \$916m provision against Third World debts, could be vulnerable to predators.

There has been no shortage of overseas names rumoured to be interested in the UK clearing bank - in particular, Deutsche Bank and Hongkong and Shanghai Banking Corporation. Under the Banking Act, which comes into force in October, the Bank of England will only be able to bar the acquisition of an interest exceeding 15 per cent in UK banks if the purchaser is deemed to be not 'fit and proper'.

Hanson's own takeover trail has invariably involved industrial money into the countries.

While the banks were lending, this was not too serious. However, it did increase these countries' foreign debt and contributed significantly to the shift in perceptions of investors as to their creditworthiness.

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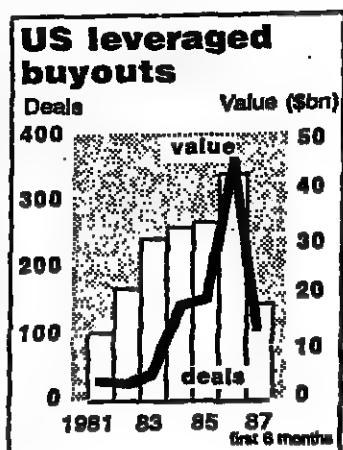
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THE LEX COLUMN

The darker side of buyouts

It is remarkable how the management buyout has been creeping into bad odour lately. Last week it became clear that the \$60m buyout of Beatrice in the US may realise \$40m profit for its management, prompting sour questions of how much of that might have been properly due to Beatrice's original shareholders. In the UK, the management of Lee International decided unilaterally - being also majority stakeholders - to take the company private again less than 18 months after flotation. It all seems far away from the original idea of the buyout as a vehicle of economic efficiency.



some for companies, with a seductive combination of debt finance at several points over prime and a slice of equity whose expected capital appreciation is taken to justify the increased risk. If interest rates rise and equities fall in earnest, some borrowers and lenders look like being in trouble.

In the UK, the same danger does not seem yet to apply. To begin with, there is a probable connection with the fact that whereas the amount of public equity has fallen in the US through company buy-outs of stock, it has risen sharply in the UK through rights issues and acquisitions for paper. The US corporate culture has leant towards leverage, the UK culture has leant away.

Transitory

At a less public level, it can be argued that the original idea still holds good. In the UK, according to researchers at Nottingham University, 93 per cent of buyouts undertaken since 1980 are still just that - small companies run by their owners, and presumably all the better for it. The big buyouts, though, are generally designed as purely transitory phenomena, whereby the management cash in - and presumably return to their old ways - after two or three years of unaccompanied effort. At its worst, this is a recipe for business inefficiency, and can set up profound conflicts of interest between management and shareholders. And in the US at any rate, it has raised serious questions of financial prudence for both the borrowing companies and the lending banks.

The scope for sharp practice is plainly greater when the company being bought out is public in its own right, rather than a subsidiary. In assessing a subsidiary's value, the parent company has - or should have - full access to the books, whereas shareholders of a public company have nothing of the kind. It is the duty of outside directors in the latter case to conduct an independent valuation on the shareholders' behalf. But in the US, at any rate, there is widespread cynicism about how seriously this job is taken, even if the number of ensuing lawsuits says more about American litigiousness than the real scale of abuse.

Even in the case of subsidiaries, shareholders in the parent company should take heed of the price arrived at. When the parent decides to sell, it usually does so as the result of considered policy, and the subsidiary's management often gets

early wind of it. Though it is naturally hard to prove, there is anecdotal evidence that managers occasionally take advantage of the period of grace to accelerate investment and R & D, to build up working capital and to defer the booking of orders - thereby depressing reported profits, and also building up a store of value which can be released in the form of cash flow after the buyout.

Flotation

This raises the question of how attractive such a business will be if it is then offered back to the public. After a few years of being run for cash to pay down the debt, and for a fast-growing profits record to jack up its flotation value, it is likely to be the reverse image of what it was just before the buyout. There is the further question of management's continued commitment: many an entrepreneur who sells out to a larger company and is retained as manager turns out to be more engrossed in the handling of his personal fortune than in running the business he swapped for it.

On the wider economic front, there is a growing body of opinion in the US which regards the whole leveraged buyout movement as a ticking bomb. The past five years in the US have seen the otherwise benign combination of falling interest rates and a rising equity market. As a result, whereas buyouts at the start of the period were typically on a multiple of four to six times pre-interest profit, the figure is now eight to 10 times.

The same banks which once supplied developing countries with loans are now happy to do the

same. The rise in the UK equity market has accordingly resulted not in increased debt being made available for buyouts, but in increased competition from other companies for business put on the auction block. As most always these days, bidders in a sell-off will include a management buyout team; but the frequency with which they can find institutional backers ready to pay the same rates as a trade purchaser is, if anything, falling. Given the steadily increasing competition from US buyout specialists in the London market, this may change. There is, though, a lot of room for manoeuvre before UK buyouts reach the US level, in terms either of proportionate size or absolute levels of gearing.

It also seems unlikely that the Beatrice-type buyout of public companies will become common in the UK. The power of the institutions is both greater and more concentrated than in the US, and a handful of easily-organised shareholders could block such deals, and probably do. It is significant that in the case of Lee International the management held an absolute majority of votes to begin with, and that in the case of Mr Harry Goodman's International Leisure earlier this year the managers were able to come up with a 40 per cent block in favour of going private. Even Lee International, though, felt obliged to offer minority shareholders the option of converting into shares in the new private company. The cult of the equity still rules in London, it seems, and shareholders correspondingly more able to take care of themselves.



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World Weather

Place	Temp	Wind	Cloud	Place	Temp	Wind	Cloud	Place	Temp	Wind	Cloud
Algeria	27	SE	20	Bahia	27	SE	20	Algeria	27	SE	20
Amman	27	SE	20	Bombay	27	SE	20	Amman	27	SE	20
Antwerp	27	SE	20	Buenos Aires	27	SE	20	Antwerp	27	SE	20
Athens	27	SE	20	Calcutta	27	SE	20	Athens	27	SE	20
Bahia	27	SE	20	Cairo	27	SE	20	Bahia	27	SE	20
Bombay	27	SE	20	Cardiff	27	SE	20	Bombay	27	SE	20
Buenos Aires	27	SE	20	Chennai	27	SE	20	Buenos Aires	27	SE	20
Calcutta	27	SE	20	Columbo	27	SE	20	Calcutta	27	SE	20
Cairo	27	SE	20	Dakar	27	SE	20	Cairo	27	SE	20
Cardiff	27	SE	20	Dhaka	27	SE	20	Cardiff	27	SE	20
Chennai	27	SE	20	Dublin	27	SE	20	Chennai	27	SE	20
Columbo	27	SE	20	Edinburgh	27	SE	20	Columbo	27	SE	20
Dakar	27	SE	20	Geneva	27	SE	20	Dakar	27	SE	20
Dhaka	27	SE	20	Hankow	27	SE	20	Dhaka	27	SE	20
Dublin	27	SE	20	Hong Kong	27	SE	20	Dublin	27	SE	20
Edinburgh	27	SE	20	Kobe	27	SE	20	Edinburgh	27	SE	20
Geneva	27	SE	20	London	27	SE	20	Geneva	27	SE	20
Hankow	27	SE	20	Lyons	27	SE	20	Hankow	27	SE	20
Hong Kong	27	SE	20	Manila	27	SE	20	Hong Kong	27	SE	20
Kobe	27	SE	20	Mexico City	27	SE	20	Kobe	27	SE	20
London	27	SE	20	Mumbai	27	SE	20	London	27	SE	20
Lyons	27	SE	20	Nagasaki	27	SE	20	Lyons	27	SE	20
Manila	27	SE	20	Osaka	27	SE	20	Manila	27	SE	20
Mexico City	27	SE	20	Paris	27	SE	20	Mexico City	27	SE	20
Mumbai	27	SE	20	Perth	27	SE	20	Mumbai	27	SE	20
Nagasaki	27	SE	20	Rangoon	27	SE	20	Nagasaki	27	SE	20
Osaka	27	SE	20	Reykjavik	27	SE	20	Osaka	27	SE	20
Paris	27	SE	20	Riyadh	27	SE	20	Paris	27	SE	20
Perth	27	SE	20	Singapore	27	SE	20	Perth	27	SE	20
Rangoon	27	SE	20	Sofia	27	SE	20	Rangoon	27	SE	20
Reykjavik	27	SE	20	Taipei	27	SE	20	Reykjavik	27	SE	20
Riyadh	27	SE	20	Tientsin	27	SE	20	Riyadh	27	SE	20
Singapore	27	SE	20	Tokyo	27	SE	20	Singapore	27	SE	20
Sofia	27	SE	20	Tripoli	27	SE	20	Sofia	27	SE	20
Taipei	27	SE	20	Urumqi	27	SE	20	Taipei	27	SE	20
Tientsin	27	SE	20				Tientsin	27	SE	20	
Tokyo	27	SE	20				Tokyo	27	SE	20	
Tripoli	27	SE	20				Tripoli	27	SE	20	
Urumqi	27	SE	20				Urumqi	27	SE	20	

Clouds at midday average

Place	Temp	Wind	Cloud	Place	Temp	Wind	Cloud
Algeria	27	SE	20	Algeria	27	SE	20
Amman	27	SE	20	Amman	27	SE	20
Antwerp	27	SE	20	Antwerp	27	SE	20
Athens	27	SE	20	Athens	27	SE	20
Bahia	27	SE	20	Bahia	27	SE	20
Bombay	27	SE	20	Bombay	27	SE	20
Buenos Aires	27	SE	20	Buenos Aires	27	SE	20
Calcutta	27	SE	20	Calcutta	27	SE	20
Cairo	27	SE	20	Cairo	27	SE	20
Cardiff	27	SE	20	Cardiff	27	SE	20
Chennai	27	SE	20	Chennai	27	SE	20
Columbo	27	SE	20	Columbo	27	SE	20
Dakar	27	SE	20	Dakar	27	SE	20
Dhaka	27	SE	20	Dhaka	27	SE	20
Dublin	27	SE	20	Dublin	27	SE	20
Edinburgh	27	SE	20	Edinburgh	27	SE	20
Geneva	27	SE	20	Geneva	27	SE	20
Hankow	27	SE	20	Hankow	27	SE	20
Hong Kong	27	SE	20	Hong Kong	27	SE	20
Kobe	27	SE	20	Kobe	27	SE	20
London	27	SE	20	London	27	SE	20
Lyons	27	SE	20	Lyons	27	SE	20
Manila	27	SE	20	Manila	27	SE	20
Mexico City	27	SE	20	Mexico City	27	SE	20
Mumbai	27	SE	20	Mumbai	27	SE	20
Nagasaki	27	SE	20	Nagasaki	27	SE	20
Osaka	27	SE	20	Osaka	27	SE	20
Paris	27	SE	20	Paris	27	SE	20
Perth	27	SE	20	Perth	27	SE	20
Rangoon	27	SE	20	Rangoon	27	SE	20
Reykjavik	27	SE	20	Reykjavik	27	SE	20
Riyadh	27	SE	20	Riyadh	27	SE	20
Singapore	27	SE	20	Singapore	27	SE	20
Sofia	27	SE	20	Sofia	27	SE	20
Taipei	27	SE	20	Taipei	27	SE	20
Tientsin	27	SE	20	Tientsin	27	SE	20
Tokyo	27	SE	20	Tokyo	27	SE	20
Tripoli	27	SE	20	Tripoli	27	SE	20
Urumqi	27	SE	20	Urumqi	27	SE	20



SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Monday September 7 1987



INTERNATIONAL BONDS

Tateho provides timely warning of futures trading perils

JAPANESE investors - so Japanese bankers say - have something of a herd instinct, writes Alexander Nicoll in London.

After the events of last week, the fervent hope must be that not too many companies have mimicked Tateho Chemical Industries' disastrous foray into the financial markets.

The ¥20bn loss incurred by Tateho from Japanese government bond and bond futures speculation sent a shiver down the spine of markets worldwide. It triggered fears, so far mercifully unshared, of a chain reaction threatening today's closely-linked global markets.

Tateho provided a timely warning of the perils for industrial companies and markets alike of *zaitech* (financial technology), and particularly of injudicious futures trading. It made markets aware that other surprises might be in store from Japan.

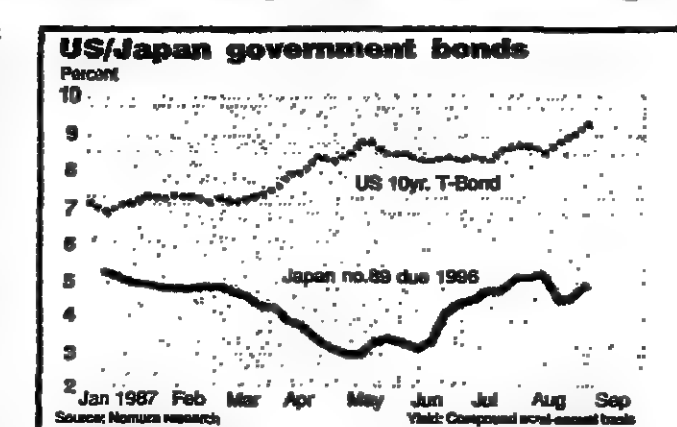
More than that, the Tateho loss was disclosed in a week which was already disastrous for international bond markets.

Not only did the Japanese market decline sharply, partly in response to news of the loss, but dollar bond markets continued their currency-fixed downward spiral, which was not alleviated by Friday's US discount rate increase; and bond prices were also lower in Canada, West Germany, Switzerland, France, and the Netherlands.

The fragile state of bond markets worldwide draws attention to one of the most important questions hanging over them: the investment strategies of the cash-rich Japanese investor.

Of course, it is dangerous to generalise. Japanese investors, like those in any other country, have widely differing investment goals and needs. They also vary enormously in degrees of sophistication. That said, even the institutional investors most hardened to currency losses must by now be keeping new investments in foreign currency bonds, especially those denominated in dollars, to a minimum.

Since April, life insurance companies and trust banks have been cutting back their dollar bond exposure. There has been until recently only sporadic interest in UK gilts and other sectors such as Australian dollars.



For some, the last US Treasury refunding, which was swiftly followed by another sharp downturn in the dollar and bonds, could have been the last straw. Investment departments of such institutions have weathered internal disgrace caused by their currency losses simply because everybody else was suffering the same losses. But that is becoming less frequently the case.

Outstandings in short-term Japanese money markets have risen sharply this year, suggesting that the money has essentially been piling up at home. Since that trend puts downward pressure on the returns that can be earned, the stage seems set for a healthy rally in the domestic government bond market, in which prices have moved in remarkable correlation to the movements of the yen against the dollar this year.

Such is the weight and accumulation of Japanese cash, however, that many must diversify. Among dollar bonds, US Treasuries still have some appeal for their liquidity, which offers the opportunity of making profits for increasingly nimble big institutions. Some long-term institutional investors, such as pension funds, are prepared to hang on to their dollar bond investments for the long term, ignoring short-term book losses.

Equities and equity-related bonds are clearly attractive to institutions: witness the differing appetites in Japan for Texas Instruments' recent convertible issue - with terms making for quick conversion - and Panasonic's straight bonds.

As for *zaitech*, most investments are probably in domestic markets, and that is likely to continue. Those multinational companies so large that their surplus funds must go abroad are probably also the most sophisticated in risk management. Some Japanese companies, such as export-oriented concerns which have managed to adapt rapidly to changed circumstances, could find themselves in less desperate need of *zaitech* profits as domestic demand, and thus earnings from their industrial activities, continue to pick up.

A repeat of the Tokyo bond market rally earlier in the year would reduce the likelihood of another Tateho although it could also set up the same speculative atmosphere in which the company's loss, however, will at least for a time encourage both institutional investors and *zaitech* companies to observe official warnings against excessive speculation.

In September, in any case, many investors' hands are tied: they close their books for the half year and must then wait until October. There could be some rushed sales of assets such as property or shares to make up for speculative losses. But if there are any other Tatehos, their fate is probably already sealed.

Few markets display investors' current distaste for long maturities more graphically than the Swiss franc foreign bond sector. Fundamentals offer no particular reason for a price slide - the market overall was down about ¼ point last week. Yet many in the recent flurry of new straight issues are languishing way below their issue prices although shorter maturities and equity-related bonds have been holding up far better.

A SF100m 12-year issue for City of Kobe, which traded officially for the first time on Friday, finished at 95, no less than 4½ points below issue price. Sample grey market bid prices for more recent deals are Japan Finance (14 years) 3½ below issue price, Air Canada (15 years) 3½ below, and NTT (10 years) 3½ below.

INTERNATIONAL CREDITS

Flurry of new deals heralds end of summer lull

A FLURRY of new deals hit the international loans market last week, signalling that the end of the traditional summer lull is nigh, writes Alexander Nicoll and Stephen Fidler in London.

Prudential Securities Group, the holding company for Prudential-Bache and the subsidiary of the big US insurance company, is raising \$250m through a three-year financing being arranged by Bank of America International Limited and Union Bank of Switzerland.

The revolving multi-currency credit, which includes an option for the borrower to ask for advances, carries a commitment fee of 10 basis points and drawings carry a margin of 25 basis points. Front-end fees range down from 5 basis points for a \$25m commitment, the level at which the lead managers have committed.

British and Commonwealth, the UK financial services group, is raising \$250m through a seven-year multi-option facility being arranged by Ceyzer, its merchant bank subsidiary.

The group will also be able to draw funds either through sterling commercial paper or cash advances. There is a cap on the interest rate margin of 12.5 basis points, with the borrower paying reserve asset costs, and an underwriting fee of 6.25 basis points. Syndication is due to start today.

Victorian Public Authorities Finance Agency, which borrows with Victoria's guarantee, has mandated Citicorp Investment Bank for a \$100m five-year revolving underwriting facility carrying a margin of 5 basis points over London interbank offered rate (Libor) and an underwriting fee of 5 basis points. Utilisation fees are 5 basis points for 40 to 80 per cent usage and 7½ above that.

Credit Suisse First Boston has won two more mandates on the heels of its successful \$400m acquisition financing for Hawley Group, the Bermuda-domiciled services group. That deal has already been oversubscribed with \$500m committed by nine banks, and a further three acceptances expected.

Terms of the Hawley deal include a split margin on the \$300m five-year term loan. The first \$100m carries a 50 basis point spread over Libor, the second 62½ basis points, and the final portion 75 basis points.

The \$100m three-year revolving credit has a margin of 37½ basis points and a facility fee of 25 basis points - effectively giving it the same margin as the term loan. Underwriting and participation fees vary depending on allocations and timing.

Humana Resources, the US health management group, has asked CSFB to arrange a \$200m five-year revolving credit, replacing an earlier \$100m deal. The margin on the first \$100m is 25 basis points, rising to 35 basis points on the second. There is a 7½ basis point commitment fee for the first two years, rising to 10 basis points thereafter. Front-end fees range from 5 to 10 basis points.

CSFB is heading a \$150m seven-year multi-option facility for British Land, the UK property concern, with a 12½ basis point margin and a facility fee of 10 basis points on "available" amounts and 7½ on "unavailable".

A \$100m loan for the state-owned Public Power Corporation of Greece met a good response and the deal is expected to be increased. By Friday, commitments of \$188m had been received for the eight-year loan, led by First Chicago and carrying a ¼ per cent margin. Another First Chicago-led loan, this time for Lomas and Nettleton, the US mortgage banking group, was also increased. It is now \$300m, up from \$250m.

Midland Corporation, a New Jersey bank holding company, has signed a \$140m five-year note issuance facility led by S.G. Warburg and Swiss Bank Corporation International, with a margin of 10 basis points above Libor, a facility fee of 12½ basis points, and utilisation fees of 2.5 basis points below 50 per cent usage and 7½ basis points above.

In Hong Kong, Kumagai Gumi, the Japanese construction company, has mandated CEF Capital and Wardley Capital for a HK\$500m three-year revolving bills of exchange facility involving a tender panel mechanism.

change facility involving a tender panel mechanism.

EUROMARKET TURNOVER				
Turnover (\$m)				
Primary Market	Secondary Market	Conv	FRN	Other
US\$ 1,107.4	2.8	118.0	3,891.9	
Prev 2,468.6	791.9	184.1	8,117.7	
Other 1,148.1	7.2	—	128.9	
Prev 1,007.7	897.1	288.9	288.1	
Secondary Market				
US\$ 15,570.3	2,517.1	7,648.5	3,882.1	
Prev 21,744.3	2,747.7	15,550.2	5,147.2	
Other 22,787.8	1,293.2	4,138.2	13,183.4	
Prev 25,287.5	1,572.0	3,672.2	10,444.2	
Total				
US\$ 32,242.0	24,147.2	34,180.2	21,222.7	
Prev 47,718.5	18,254.2	31,222.7	17,778.3	
Other 38,848.1	23,720.5	43,678.7	24,612.7	
Prev 47,708.3	25,706.4	43,612.7	24,612.7	

Week to September 5 1987 Source: AIBD



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to purchase 20,400,000 Ordinary Shares of Lire 1,000 par value each of

Società Italiana per il Gas per Azioni
"Italgas"

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Banco di Roma

Euromobiliare S.p.A.

Banca Commerciale Italiana
Credit Suisse First Boston Limited
Istituto Bancario San Paolo di Torino
Samuel Montagu & Co. Limited
Nomura International Limited
Shearson Lehman Brothers
International

Banque Paribas Capital Markets Limited
Deutsche Bank Capital Markets Limited
Merrill Lynch Capital Markets
Morgan Stanley International
Salomon Brothers International Limited
S.G. Warburg Securities/
S.G. Warburg Soditit S.A.

Banca del Gottardo
Compagnie de Banque et d'Investissements, CBI
Hentsch et Cie

Banca della Svizzera Italiana
Handelsbank NatWest
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New Issue

This announcement appears as a matter of record only.

September, 1987

All these securities having been sold, this announcement appears as a matter of record only.



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£150,000,000

9¾ per cent. Guaranteed Bonds 2007

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Credit Suisse First Boston Limited

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Merrill Lynch Capital Markets

Samuel Montagu & Co. Limited

Morgan Grenfell & Co. Limited

Nomura International Limited

J. Henry Schroder Wagg & Co. Limited

Swiss Bank Corporation International
Limited

Union Bank of Switzerland (Securities)
Limited

INTERNATIONAL CAPITAL MARKETS and COMPANIES

Santa Fe submits plan to sell Southern Pacific rail network

BY ANATOLE KALETSKY IN NEW YORK

SANTA FE Southern Pacific, the US transportation company which is under orders from the Interstate Commerce Commission to dismantle its vast rail network, has decided that it will sell the 10,000-mile Southern Pacific railroad.

SFSP's proposals, submitted to the ICC on Friday, contained no surprises and left open both the possibility of Southern Pacific being broken up and of it being sold as a whole.

The next step in the divestiture process will be a complex bidding process, involving several leading US transportation companies, as well as railroad unions and corpo-

rate raiders who specialise in leveraged takeovers and breakups.

Analysts do not agree over the true value of the Southern Pacific network, which connects California with Texas and the southern parts of the mid-West.

Before the end of the lengthy saga, which began in 1983 with Santa Fe's ill-fated decision to buy Southern Pacific without the ICC's approval, Santa Fe could itself fall victim to a takeover. Mr Michael Dingman's Healey Group holds a 5 per cent stake in SFSP, and other predators may be waiting to pounce on the company, depending on the outcome of the Southern Pacific disposal.

Meanwhile, at least four groups have already announced their plans to bid for all or parts of Southern Pacific, which is estimated by analysts to be worth between \$700m and \$1bn, depending on how many of the railroad's real estate holdings are included in the sale.

The most intriguing of the bidders is a consortium of 17 railroad unions, with backing from Drexel Burnham Lambert, which announced two weeks ago that they were preparing an offer which would be financed partly by pay concessions from the railroad's 25,000 employees.

The other companies which have thus far expressed an interest in

Southern Pacific are two much smaller railroads - the Kansas City Southern and the Denver Rio Grande. However, Kansas City Southern is itself under threat from its largest shareholder, Mr Howard Kaskel, a New York property developer who controls 8 per cent.

Burlington Northern, the biggest US railroad company, has said that it would be interested in buying parts of Southern Pacific, though probably not the whole network. SFSP has said it would make full financial information about Southern Pacific available to potential bidders later this month and that it hopes to have a deal concluded by the end of November.

Kenner Parker and Tonka to merge

By James Buchanan in New York

KENNER PARKER Toys, the New England toy group spun off from General Mills two years ago, has agreed to a defensive merger with Tonka, a smaller fellow toymaker based in Minnesota.

The merger, which will take the form of a \$51 a share or \$500m tender offer by Tonka for Kenner Parker, could create the largest US toy group after Hasbro and Mattel. The combined group is forecast to enjoy sales of around \$800m and earnings of \$40m or more.

However, it was not immediately clear how New World Entertainment, the aggressive West Coast group, would respond to the merger agreement. New World, a maker of low-budget films which recently acquired Marvel Comics, has been seeking to acquire Kenner Parker for \$47 a share, but its tender offer has been blocked in the Massachusetts courts.

New World said it was restrained by the court from making any comment. The company owns 8.4 per cent of Kenner Parker.

Dominion eyes Burlington units

By Robert Gibbons in Montreal

DOMINION TEXTILE, Canada's largest textile and fabrics group, is still interested in acquiring some of the subsidiaries of Burlington Industries, the US textile company.

Burlington's management succeeded earlier this summer in defeating a joint takeover approach from Domtex and Mr Asher Edelman, a US financier. The group is now being restructured, and some of its subsidiaries are being sold off.

Domtex stands to take a profit of about \$70m (US\$54m) on the sale of its Burlington shareholding which was built up during the takeover fight.

Apart from this special item, Domtex is forecasting higher profits in the current year to June 30 1988.

NEW INTERNATIONAL BOND ISSUES

Currency	Amount \$m	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
US DOLLARS							
Adco Corp. 7 1/2	100	1992	5	3 1/4	100	Nomura Int.	3.280
Adco Corp. 7 1/2	70	1992	5	3 1/4	100	Yamachi Int. (Eur)	3.250
Adco Corp. 7 1/2	100	1992	5	3 1/4	100	Daiwa Europe	3.250
Kinki Nippon Railway 7 1/2	200	1994	7	4 1/4	100	Nomura Int.	4.500
Reichsbank 7 1/2	120	1992	5	3 1/4	100	Daiwa Europe	3.250
Harco Co. 7 1/2	70	1992	5	3 1/4	100	Yamachi Int. (HK)	3.250
Teco Co. 7 1/2	20	1992	5	3 1/4	100	New Japan Secs.	3.250
Wyco Technology 7 1/2	75	2002	15	5	100	J. H. Schroder Wagg	5.000
Wackel Industrie 7 1/2	150	1992	5	3 1/4	100	Nomura Int.	3.250
Savaco Bank 5	250	2002	15	(1 1/4)	100	Savaco Int.	•
Savaco Bank (a) 5	50	2002	15	(1 1/4)	100	Savaco Int. Fin. (HK)	•
Reichsbank 7 1/2	70	1992	5	(3 1/4)	100	New Japan Secs.	•
Savaco Special Steel 7 1/2	88	1992	5	(3 1/4)	100	Yamachi Int. (Eur)	•
Mitsubishi Milk Ind. 7 1/2	100	1992	5	(3 1/4)	100	Nikko Secs (Europe)	•
Ryobi 7 1/2	50	1992	5	(3 1/4)	100	Nomura Int.	•
Mitsubishi Elec. Works 7 1/2	300	1992	5	(3)	100	Yamachi Int. (Eur)	•
Continental 7 1/2	75	1997	10	8 1/4	130	Deutsche BK Cap. Mkts	5.727
Nippon Meat Packers 7 1/2	100	1992	5	(3)	100	Yamachi Int. (Eur)	•
Taiyo Kobo Bank 5	120	2002	15	(1 1/4)	100	Taiyo Kobo Int.	•
CANADIAN DOLLARS							
Toyota Motor Credit 7 1/2	75	1990	3	11	101 1/2	Morgan Guaranty	10.443
World Bank 7 1/2	150	1994	7	11	101 1/2	Morgan Guaranty	10.711
AUSTRALIAN DOLLARS							
Amro Bank Australia 7 1/2	50	1990	3	13 1/2	101 1/2	ESB Amro Bank	13.166
WestLB Finance 7 1/2	50	1994	7	13 1/2	101 1/2	WestLB	13.187
Shand. Facilities Finance 7 1/2	75	1990	3	13 1/2	101 1/2	CSFB	13.001
D-MARKS							
Public Finance Corp. (Greece) 7 1/2	150	1994	7	8 1/4	99 1/2	Dresdner Bank	8.571
Continental 7 1/2	150	1997	10	8 1/4	134	Dresdner Bank	2.804
SWISS FRANS							
Helvetia Gold Shares 7 1/2	12	1992	•	4 1/4	100	Bank Indosuez	4.750
Helvetia Corp. 7 1/2	100	1992	•	1/4	100	Chiriqui Inv. Bank	0.501
Kelco Co. 7 1/2	60	1992	•	1	100	Bank Leu	1.000
KVC Machine Ind. Co. 7 1/2	38	1993	•	1/4	100	SBC	0.508
KVC Machine Ind. Co. 7 1/2	30	1992	•	1	100	SBC	1.000
Industrie & Co. 7 1/2	60	1992	•	1/4	100	SBC	0.508
Atropi System Ind. 7 1/2	100	1992	•	1/4	100	SBC	0.508
MEC System Ind. & Co. 7 1/2	35	1992	•	1/4	100	SBC	0.508
Aichi Tokai Bank Co. 7 1/2	20	1992	•	1	100	Wirtschafts- und P'k	1.000
Fuji Kasei Co. 7 1/2	20	1992	•	1/4	100	Handelsbank W'West	0.501
Savaco Bank 5	200	1992	•	(1 1/4)	(100)	SBC	•
Savaco Bank 5	200	1992	•	(1 1/4)	(100)	SBC	•
Solidbank Co. 7 1/2	30	1992	•	(1 1/4)	100	S. & B. Schwab Int.	•
Tonghai Chemical Ind. 7 1/2	60	1992	•	(1 1/4)	100	SBC	•
Continental 7 1/2	100	2002	•	4 1/4	127	MSB	2.940
Nippon Meat Packers 7 1/2	100	1993	•	(1 1/4)	100	Credit Suisse	•
Tokai Bank 7 1/2	100	1992	•	4 1/4	100	IBS	4.750
Japan Fin. Corp. Nippon Ind. 7 1/2	100	2001	•	5	95 1/2	SBC	5.825
Nippon Unico 7 1/2	20	1992	•	4 1/4	100	Credit Suisse	4.876
SEOs							
Toyota Motor Credit 7 1/2	85	1990	3	8	101 1/2	Morgan Guaranty	7.472
Bank of Tokyo Canada 7 1/2	70	1992	5	8 1/4	101 1/2	Bank of Tokyo	7.813
LUXEMBOURG FRANCS							
F. van Laender 7 1/2	300	1993	8	7 1/4	100 1/2	Bep. Furbus (Lux)	7.348
Heroldbank 7 1/2	300	1992	8	7 1/4	100	Caisse d'Epargne Lux.	7.525

* Not yet priced. † Final terms. ‡ With equity warrants. § Convertible. ¶ Floating rate note. ♂ With gold warrants. ** Private placement. †† Currency-linked. (a) Launched in Asia. Note: Yields are calculated on a 360 day basis.

Heineken posts flat results for first half

By Our Financial Staff

HEINEKEN, the Dutch brewing group with worldwide interests, has reported virtually stagnant first-half earnings of Fl 118.4m (\$58.5m) against Fl 118.8m in the same period of last year.

However, pre-tax profit was down 6 per cent on lower sales, and the company expects profits for the full year 1987 to be little changed from last year's of Fl 285.3m.

Sales in the first half fell by 7 per cent to Fl 3.18bn from Fl 3.41bn in the first six months of last year. Sales volume increased in the 12 months to June 30, but the strength of the guilder against other currencies, especially the US dollar, undermined the guilder-denominated results of foreign subsidiaries.

Heineken said the guilder's firmness against other currencies had depressed earnings while increased competition had affected exports.

However, the tax burden fell to 41.8 per cent in the first half of 1987 from 47.1 per cent in the year-ago period, reflecting a wider geographical balance in earnings.

Singapore introduces new rules for settlement of share trading

BY ALISON MAITLAND IN LONDON

NEW RULES governing the settlement of share transactions come into effect on the Singapore Stock Exchange today to a mixed response from London's international broking community.

Sellers will now be required to deliver their share certificates to brokers five business days after a trade has been agreed; they will receive payment within 24 hours. Buyers must then pay and take delivery a day later.

This "rolling" system replaces a fixed account period where trades always had to be settled on the following Tuesday.

Should a seller now fail to deliver on time, the stock exchange itself will automatically "buy in" the relevant shares on the market the following day on behalf of the buyer, with any additional costs being charged to the seller. Although brokers have had the same right in the past, they have not always exercised it.

It is possible that the market may suffer distortion today as the an-

thorities act to clear the backlog through a buy-in of all unsettled bargains up to August 21.

The moves are seen as an attempt by the Singapore exchange to bring its operations more into line with other international markets while encouraging cash settlement.

Singapore share volume has grown dramatically in the past two years with the inflow of foreign funds, and this has exacerbated settlement delays. Buyers have sometimes had to wait up to 12 weeks for shares to be registered.

There are hopes among analysts in London that the automatic buy-in will force companies and custodian banks in Singapore, where the delays usually occur, to speed up the registration process and improve efficiency.

"If these rules have the effect of kicking the registries into life, then they will have done some good," said one London salesman.

But he cautioned that brokers and their clients, rather than the

company registries, would bear the brunt of the new sanctions.

There was strong opposition to the fact that sellers will not be paid for up to 24 hours after delivery. "This makes it hard to do business in Singapore," said one salesman. "We wouldn't expect clients to accept that sort of arrangement."

He added that responsibility for having share certificates stamped would pass from local brokers to already hard-pressed banks. "This will mean more and more bottlenecks," he said.

There was general agreement that Singapore needed to move to a scriptless, computerised settlements system as soon as possible. Share turnover in Singapore has grown from just over \$40bn (US\$2.9bn) in the whole of 1985 to \$83bn in 1986 and to nearly \$82bn a month so far this year.

The Singapore exchange is introducing its new rules independently of Malaysia even though most companies are listed on both exchanges and the two markets often move together.

Travelling on Business?

Enjoy reading your complimentary copy of the Financial Times when you're staying . . . in Athens at the Hotel Athenaeum, Astir Palace Hotel, Asir Vouliagmenis Hotel, Hotel Grande Bretagne, Hilton Hotel

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AEGON N.V.

(Incorporated with limited liability in The Hague, The Netherlands)

U.S. \$100,000,000

8 1/4% Notes due July 23, 1990

Goldman Sachs International Corp.

EBC Amro Bank Limited

Prudential-Bache Capital Funding

Swiss Bank Corporation International Limited

Algemene Bank Nederland N.V.

Banque Indosuez

Citicorp Investment Bank Limited

Credit Suisse First Boston Limited

Kredietbank International Group

Lloyds Merchant Bank Limited

Merrill Lynch Capital Markets

Morgan Guaranty Ltd

Nederlandsche Middenstandsbank nv

The Nikko Securities Co., (Europe) Ltd.

Nomura International Limited

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August, 1987

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The Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe

U.S. \$100,000,000

8 1/4% Notes due 1994

Goldman Sachs International Corp.

Kleinwort Benson Limited

Swiss Bank Corporation International Limited

Banca del Gottardo

BankAmerica Capital Markets Group

Banque Bruxelles Lambert S.A.

Banque Indosuez

Banque Internationale à Luxembourg S.A.

Bayerische Landesbank Girozentrale

Berliner Handels- und Frankfurter Bank

Chase Investment Bank

Crédit Lyonnais

Daiwa Europe Limited

Genossenschaftliche Zentralbank AG

LTCB International Limited

Société Générale

Tokai International Limited

Westdeutsche Landesbank Girozentrale

August, 1987

Nikki Tait examines Scottish National's innovative restructuring.
Putting its future security into trust

the 1990s, the number of people in the United States who are 65 years of age or older is projected to increase from 20 million to 30 million, and the number of people 75 years of age or older is projected to increase from 10 million to 15 million (U.S. Census Bureau, 1996).

FINANCIAL TIMES BOOKS BRING YOU THE FACTS ON PENSION PLANNING

Executive Pensions Handbook 1986-87

This information packed book provides you with a functional guide to and a comparative assessment of 120 tailor-made pension plans marketed to company directors and senior employees.

The Handbook gives business profiles of the life assurance companies, and lists comprehensive details of with-profits, unit-linked and deposit administration policies. This is an essential reference source for those who plan, administer, or advise on executive pensions, and for anyone else with an interest in judging the many schemes currently on the market.

Contents include:

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- Development of Personal Pensions
- Review of the Results
- How to Select an Executive Pension Plan
- Small Self-Administered Schemes

price £21.50 UK
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published November 1986

Personal Pensions

The Government's recent pension legislation has given more freedom of choice to the individual than ever before. But this new independence has brought a risk of confusion with bewildering interpretations and differing explanations.

Personal Pensions, a new Financial Times handbook, cuts through the perplexity of legislation and conflicting advice to give you an incisive analysis of the personal pensions scene.

Financial advisers, employers and employees alike will benefit from Personal Pensions, the latest addition to the highly respected FT pensions magazine and book titles.

In a readable style, this up-to-date handbook covers:

- how the plans work
- portability
- employers' and employees' contributions
- how to claim tax relief
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- pensions mortgages, and much more.

To be fully informed about the personal pensions scene before their introduction in January 1988, order your copy now.

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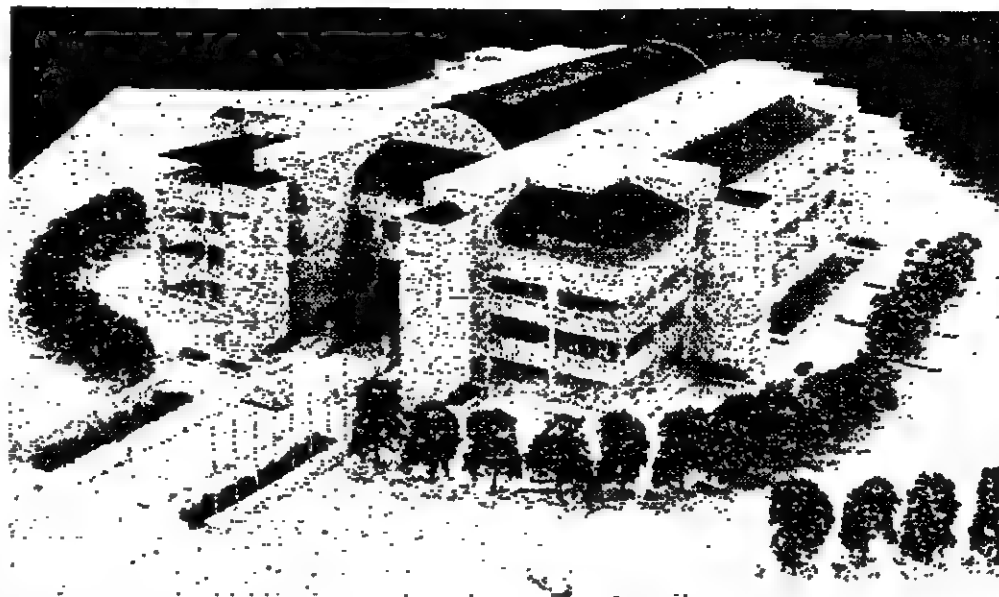
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BUILDING CONTRACTS

Building society's new HQ



WILLET CONSTRUCTION UK has been awarded a £20m contract to build new headquarters for the Cheltenham and Gloucester Building Society at Barnwood Fields, Gloucester.

The four-storey building will provide some 17,000 square metres of office space, to be built with a steel frame, concrete floors and a combination of patent glazing and natural granite cladding. A central area containing the

main entrance and reception is under an atrium roof. The new building, which is due for completion in mid-1989 for occupation by the autumn, will be one of Gloucestershire's largest recent construction projects.

Willmott Dixon busy

Over £6m worth of orders have been placed with companies in the WILLMOTT DIXON group. Willmott Dixon Housing has been awarded a contract in the region of £2.5m by the South British Housing Association for construction of 80 timber-framed homes (two- and three-storey high) at North Beckton, London, E28.

Willmott Dixon Construction has an order worth about £2m for nine two-storey high technology R & D units, including associated external works at the Astra Centre, Harlow, for Dencom. Willmott Dixon London has been awarded a contract worth about £989,000 by Brightside Investments for construction of an office block at 91-95 Southwick Bridge Road, London, SE1.

A. E. Symes is to build four two-storey shop units at High Road, Ilford, for Martin Brent Developments for £508,000. Willmott Dixon London has a Home Office contract for refurbishment to the visitors block at Pentonville Prison, on Clerkenwell Road, London, N7, worth £330,000. The construction company has been awarded a contract (£218,000) by Ravenscroft Properties to build two two-storey shops at 121-121A High Street, Waltham Cross. Willmott Dixon Western has a contract (£118,000) from Brentford Football Club for refurbishment to the south stand. Bush Gould is building entrance gates for £187,000 for the Shadwell Estate.

Tunnelling a sewer

DELTA CIVIL ENGINEERING has won four tunnelling contracts worth £3.5m including a £2.5m relief sewer tunnel at Heron Bay on the north Kent coast. The 16-month project for Canterbury City Council, agents for Southern Water Authority, involves driving more than 3.6 km of tunnels in London Clay ranging in diameter from 3.35 m to 1.2 m. The 3.35 m long 3.35 m diameter section will be a partially mechanised segmental drive and the remainder will be undertaken by pipejacking. A Decan backhoe shield will be used for the 1.2 m drives and all jacking pipes will be supplied by ARC Pipes.

Work has started on the 26 segmental shafts required for the project. These are up to 3.3 m diameter and range in depth from 6 m to 12 m.

In Cleveland Delta has won a £450,000 contract with Northumbrian Water Authority for a compressed air tunnel under the River Tees at Portrack near Stockton. The 220 m long 1.55 m diameter bolted segmental tunnel is intended to carry a 711 mm diameter welded steel water main when completed at the end of this year.

LESLIE JONES, architects, have been appointed by the Norwich Union Insurance Co. to prepare designs for a £4m refurbishment of the central area shopping development in Woking, Surrey. Construction is due to start in January, to be completed in time for Christmas 1988.

Shand Committed to Construction

Shand Ltd.
Shand House, Millbrook
Derbyshire DE4 3AF
Tel: (0629) 734441

Docklands Railway site office

A £198,000 contract for two three-storey timber-frame sectional buildings with floor area totalling 850 sq metres has been awarded to system builders & WERNICK & SONS, Wickford, Essex, by Edmund Nuttall, for installation at the City of London extension to the new Docklands Light Railway. The extension, for which Edmund Nuttall are main contractors, will link the Docklands Light Railway with the Underground system at Bank Station. The two buildings will provide accommodation for the site staff of Edmund Nuttall and the Docklands Light Railway.

In a £125m contract negotiated with Wilson (Connolly) Properties the Northampton area office of WILCON CONSTRUCTION is to provide a warehouse and production facility on the site of the old Hammer Steel building at Salthouse Road, Brackmills. When completed in April 1988 the development will provide over 100,000 sq ft of warehouse or production space and 12,000 sq ft of office accommodation.

ASHBY & HOKNER has won five contracts worth £1.2m. These include fitting out the first floor banking suite at Barclays Bank, Camden High Street, London, NW1, and creating practice studios for the Royal Academy of Music, Marylebone Road, London, NW1. In addition, the company is to undertake external repairs to a modern extension of St Mary's Hospital, Prasad Street, London, W8, and a range of improvements for St Godric's Secretarial College, Arkwright Road, London, NW3, and Royal Holloway and Bedford New College at Egham Hill, Surrey.

CAPE DURASTEEL has secured contracts worth over £2m. These include a £250,000 order for I.C. House, the new headquarters of ICI situated at Millbank, near Westminster, this 10-storey building will include Durasteel smoke ventilation ducting and kitchen extract ducting. Trollope and Collis has awarded a £100,000 order for smoke ventilation ducting at Leadenhall Court, an office development.

U.S. \$150,000,000

Bank of Ireland

(Established in Ireland by Charter in 1783, and having limited liability)

Undated Floating Rate Primary Capital Notes

In accordance with the provisions of the Notes, notice is hereby given that for the three month interest period from September 8, 1987 to December 8, 1987 the Notes will carry an interest rate of 7 1/4% per annum. The interest payable on the relevant interest payment date, December 8, 1987 will be U.S. \$191.16 per U.S. \$100,000 principal amount.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank

September 7, 1987

SELL YOUR HOUSE

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Property Pages

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01-489 0331 NOW

Hospitality suite at bank

Fitting out the hospitality suite of the Union Bank of Switzerland's new office for UBS Securities and Phillips and Drew has been awarded to the PEARCE BUILDING GROUP. Worth about £2.25m, the contract at the Broadgate Phase III development in the City of London will be

carried out by Imperial Shopfitters—a specialist division of the Group. It was awarded by Laing Shorupian Joint Venture, the design and management contractor for the project. The Union Bank of Switzerland's hospitality suite will be on the fourth floor of Broadgate III.

Company Notices

ÖSTERREICHISCHE LÄNDERBANK AKTIENGESELLSCHAFT

Intending to Subdivide New Participation Certificates of AG 300 Nominal Value Each

Notice is hereby given to the holders of Participation Certificates 1986 and 1987 of Österreichische Länderbank Aktiengesellschaft of the issue of up to 282,334 new Participation Certificates of AG 300 nominal value each, with dividend coupons Nos 3-50 attached. The new Participation Certificates will be available to holders from 1st September, 1987. This issue was authorized at the shareholders general meeting held on 22nd April, 1987.

Holders of Participation Certificates are hereby invited to subscribe one new Participation Certificate for every 33 Participation Certificates held at the subscription price of AG 300.00 per new Participation Certificate from 7th September, 1987 until and including 23rd September, 1987 at the offices of the following Authorized Agents:

Österreichische Länderbank Aktiengesellschaft, Vienna
Österreichische Credit-Institut, Aktiengesellschaft, Vienna
Eisenbank Bank Aktiengesellschaft, Eisenstadt
Direktbank Aktiengesellschaft, Ferschtel
Möller Bank Aktiengesellschaft, Graz
Göbel Bank Aktiengesellschaft, Innsbruck

The subscription right cannot be exercised after the expiration of the subscription period. To exercise the subscription right, holders of Participation Certificates must present dividend coupon No 2. There will be no commission charged provided subscription is made as one of the authorized participating agents and dividend coupons No 3 attached in numbered order are presented together with a list in duplicate specifying Participation Certificates to be subscribed. Payment for the new Participation Certificates must be received by 23rd September, 1987 at the latest.

The Authorized Agents will endeavour to assist holders of Participation Certificates in buying or selling subscription rights.

Vienna, 7th September, 1987
Österreichische Länderbank Aktiengesellschaft

NOTICE TO HOLDERS OF SHANGHAI SHIPBUILDING CO. LTD. IN

SHANGHAI SHIPBUILDING CO. LTD.

SHS holders are informed that Shanghai Shipbuilding Co. Ltd. has decided to reduce its share capital from RMB 1,000,000,000 to RMB 500,000,000. The reduction of share capital will be effected by the cancellation of 50% of the shares held by the shareholders. The cancellation of shares will be effected by the cancellation of 50% of the shares held by the shareholders. The cancellation of shares will be effected by the cancellation of 50% of the shares held by the shareholders.

A list of the names of the shareholders who are entitled to exercise the subscription right is being prepared. The list will be available to the shareholders from 1st September, 1987. The shareholders are invited to exercise the subscription right by presenting their shares to the authorized agents.

The authorized agents are: Shanghai Shipbuilding Co. Ltd., Shanghai; Shanghai Shipbuilding Co. Ltd., Shanghai; Shanghai Shipbuilding Co. Ltd., Shanghai.

Shanghai, 7th September, 1987

Shanghai Shipbuilding Co. Ltd.

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ENTE NAZIONALE PER L'ENERGIA ELETTRICA (ENEL)

SUS 300,000,000

FLOATING RATE

NOTES DUE 2000

For the six months,

September 3, 1987 to March

2, 1988, the rate of interest

has been fixed at

7 1/16% P.A.

The interest due on March

3, 1988 against coupon No 6

will be \$US 388.65 and has

been computed on the actual

number of days elapsed

(182) divided by 360.

THE PRINCIPAL

PAYING AGENT

SOCIETE GENERALE

ALSAIENNE DE

BANQUE

15, Avenue Emile Reuter

LUXEMBOURG

THE ROYAL BANK OF CANADA

US\$300,000,000 FLOATING RATE

DEBENTURE NOTES DUE 2005

NOTES 15 HERBY GIVEN THAT

the interest rate on the notes for the

period commencing 15 September 1987, the

notes will bear interest at the rate of 7 1/4% per

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annum. The interest rate on the notes for the

period commencing 15 September 1987, the

Contracts & Tenders

Advertisement

The Education and Library Boards for Northern Ireland

Tender for Provision of Insurance—1 April 1988

The Education and Library Boards for Northern Ireland invite tenders for a range of insurances from insurance companies or registered insurance brokers.

The five Boards form the local Education Authorities for the Province and premiums on their current insurance portfolio are in the region of £1.5m.

The Tenderer is required to certify whether or not it is in possession of an Equal Opportunity Certificate issued under the fair employment Act 1970—this applies to three Boards only.

Further details and tender forms are available on request from:

The Chief Officer

North-Eastern Education and Library Board

County Hall

122 Galgorm Road

Ballymena

BT42 1BQ

If a tender is received in an envelope which bears any mark by which the person or firm submitting it can be identified, it will be regarded as invalid and will not be considered.

The Boards will not be bound to accept the lowest or any tender.

Applications, which must be on the form supplied by the Board, must be submitted in a sealed envelope marked "Tender for Insurance" to North-Eastern Education and Library Board, County Hall, 122 Galgorm Road, Ballymena, Co. Antrim on or before 4.00 p.m. on 30 October 1987.

OPPORTUNITY FOR INVESTMENT IN IRELAND

SALE OF IMMATURE FORESTS

The Minister for Energy, Dublin, is offering for sale by public tender competition a selection of immature forests (including the land) at various locations throughout the country. The total area involved is about 1,100 hectares.

The closing date for receipt of tenders will be noon on Friday 8th October 1987

The Minister will not bind himself to accept the highest or any tender.

For further particulars apply to:

Department of Energy

Forest Service,

Leeson Lane,

Dublin 2

Telephone (01) 615666 Extension 564

MSB

NEW SOUTH WALES

The Maritime Services Board of NSW

Design of self

propelled trailing

suction hopper

dredge with a grab

capacity

The Port of Newcastle invites Tenders for the design of a trailing suction hopper dredge for maintenance dredging of approximately 35,000 m³ of silt and sand to a depth of 16 metres in the Port of Newcastle and Sydney.

Details of the design studies required are available from:

Port of Newcastle

PO Box 663, Newcastle,

NSW 2300 Australia.

Attention: Mr. Graeme Sachs,

Manager Works & Projects.

Telex: A425761.

Facsimile: 6149 26 4596.

Telephone: 6149 27 2400.

Tenders are to close on Wednesday, 7th October, 1987.

PROPERTY ALONG THE M25

The Financial Times proposes

to publish this survey on

Friday 16 October

For further information

contact:

Joanna Dawson on

01-286 9763

or your usual

Financial Times

representative

FINANCIAL TIMES

EUROPE'S BUSINESS

NEWSPAPER

THE PROSPECTS FOR THE ADR BUSINESS

London 11 & 12 NOVEMBER 1987

The FT Conference Organisation and the National Association of Securities Dealers (NASD) are joining forces to hold a major European-American Forum on the ADR business in November. The subjects for discussion will include access to US capital markets, ADRs as a vehicle, regulation of the ADR business, European company experience, the approach through NASDAQ and the role of the Stock Exchange in London.

Details of "The Prospects for the ADR Business" will be available at the beginning

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	THURSDAY SEPTEMBER 3 1987				WEDNESDAY SEPTEMBER 2 1987				DOLLAR INDEX	
	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Figures in parentheses show number of stocks per grouping										
Australia (93)	168.10	+1.2	150.31	155.07	166.15	149.29	153.49	168.10	99.92	78.47
Austria (16)	98.32	+0.4	67.92	71.46	97.08	67.95	71.46	98.32	94.21	94.21
Belgium (58)	134.29	+0.8	120.08	124.02	133.22	119.70	123.86	134.29	96.19	92.27
Canada (129)	136.87	+0.5	122.34	130.23	137.20	123.29	130.88	141.78	100.00	100.95
Denmark (39)	123.16	+0.5	110.13	115.50	122.55	110.11	115.67	124.21	98.18	93.11
France (458)	126.57	+1.8	104.23	109.75	125.53	102.91	108.42	122.82	98.39	100.28
Germany (192)	104.29	+0.4	92.26	97.24	104.29	92.26	97.24	104.29	84.00	96.89
Hong Kong (45)	145.31	+0.3	131.77	147.62	145.31	131.77	147.62	145.31	96.89	77.89
Ireland (14)	145.31	+0.3	131.77	147.62	145.31	131.77	147.62	145.31	96.89	77.89
Italy (76)	87.71	-1.8	78.43	85.15	87.71	78.43	85.15	87.71	84.22	106.25
Japan (458)	149.67	-1.5	133.84	138.40	149.67	133.84	138.40	149.67	98.35	98.35
Malaysia (58)	168.42	+0.7	150.69	155.07	168.42	150.69	155.07	168.42	94.23	94.23
Netherlands (37)	97.62	+0.9	394.99	615.82	97.62	394.99	615.82	97.62	99.72	99.72
New Zealand (24)	127.48	+0.5	113.99	117.47	127.48	113.99	117.47	127.48	99.72	102.10
Norway (24)	128.72	+1.2	115.10	110.49	128.72	115.10	110.49	128.72	99.72	99.72
Spain (43)	128.52	+1.2	115.10	110.49	128.52	115.10	110.49	128.52	99.72	99.72
Sweden (33)	163.71	+1.3	146.39	158.35	163.71	146.39	158.35	163.71	99.72	99.72
Singapore (127)	187.41	+1.6	167.58	176.57	187.41	167.58	176.57	187.41	99.72	99.72
South Africa (61)	159.99	-1.4	142.17	145.08	159.99	142.17	145.08	159.99	99.72	99.72
Switzerland (53)	128.52	+1.2	115.10	110.49	128.52	115.10	110.49	128.52	99.72	99.72
United Kingdom (333)	153.91	+1.3	137.63	140.82	153.91	137.63	140.82	153.91	99.72	99.72
USA (589)	130.80	+0.5	116.96	117.32	130.80	116.96	117.32	130.80	100.00	101.34
Europe (929)	127.98	+0.6	114.44	117.32	127.98	114.44	117.32	127.98	99.72	100.30
North America (623)	152.20	-1.3	134.31	138.40	152.20	134.31	138.40	152.20	99.72	99.72
Europe-Pacific (1612)	141.38	+0.6	126.43	127.66	141.38	126.43	127.66	141.38	100.00	96.52
North America (718)	131.22	-0.5	117.25	120.79	131.22	117.25	120.79	131.22	100.00	105.52
Europe Ex. UK (296)	111.89	-0.1	100.05	104.72	111.89	100.05	104.72	111.89	99.72	99.72
Europe Ex. Japan (225)	155.77	+0.7	140.19	148.16	155.77	140.19	148.16	155.77	99.72	99.72
World Ex. UK (2072)	141.87	-0.6	126.86	128.15	141.87	126.86	128.15	141.87	100.00	96.52
World Ex. Japan (225)	155.77	+0.7	140.19	148.16	155.77	140.19	148.16	155.77	99.72	99.72
World Ex. UK (2072)	141.87	-0.6	126.86	128.15	141.87	126.86	128.15	141.87	100.00	96.52
World Ex. Japan (225)	155.77	+0.7	140.19	148.16	155.77	140.19	148.16	155.77	99.72	99.72
World Ex. UK (2072)	141.87	-0.6	126.86	128.15	141.87	126.86	128.15	141.87	100.00	96.52
World Ex. Japan (225)	155.77	+0.7	140.19	148.16	155.77	140.19	148.16	155.77	99.72	99.72
The World Index (2405)	137.53	-0.6	122.98	129.34	137.53	122.98	129.34	137.53	100.00	101.34

Base values: Dec 31, 1986 = 100

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Latest price changes were available for this edition.

CONSTITUTIONAL CHANGES: Domestic: Monetary: Monetary (US), Index: Ind. and Service: Wholesale (UK), NAME CHANGES: Continental: Continental (West Germany)

EUROPEAN OPTIONS EXCHANGE

Series	Nov 87				Feb 88				May 88				Stock
	Vol.	Low	High	Sett.	Vol.	Low	High	Sett.	Vol.	Low	High	Sett.	
GOLD S	3500	106	108	107	92	18							\$465.60
GOLD P	30	10	10	10									
Sep 87													
S&P 500	130	230	230	230	430	1	4.80A						\$1,200.10
S&P 500 P	100	10	10	10	10	10	10	10					
S&P 500 F	100	10	10	10	10	10	10	10					
Oct 87													
S&P 500	130	230	230	230	430	1	4.80A						\$1,200.10
S&P 500 P	100	10	10	10	10	10	10	10					
S&P 500 F	100	10	10	10	10	10	10	10					
Nov 87													
S&P 500	130	230	230	230	430	1	4.80A						\$1,200.10
S&P 500 P	100	10	10	10	10	10	10	10					
S&P 500 F	100	10	10	10	10	10	10	10					
Dec 87													
S&P 500	130	230	230	230	430	1	4.80A						\$1,200.10
S&P 500 P	100	10	10	10	10	10	10	10					
S&P 500 F	100	10	10	10	10	10	10	10					
Jan 88													
S&P 500	130	230	230	230	430	1	4.80A						\$1,200.10
S&P 500 P	100	10	10	10	10	10	10	10					
S&P 500 F	100	10	10	10	10	10	10	10					
Feb 88													
S&P 500	130	230	230	230	430	1	4.80A						\$1,200.10
S&P 500 P	100	10	10	10	10	10	10	10					
S&P 500 F	100	10	10	10	10	10	10	10					
Mar 88													
S&P 500	130	230	230	230	430	1	4.80A						\$1,200.10
S&P 500 P	100	10	10	10	10	10	10	10					
S&P 500 F	100	10	10	10	10	10	10	10					
Apr 88													
S&P 500	130	230	230	230	430	1	4.80A						\$1,200.10
S&P 500 P	100	10	10	10	10	10	10	10					
S&P 500 F	100	10	10	10	10	10	10	10					
May 88													
S&P 500	130	230	230	230	430	1	4.80A						\$1,200.10
S&P 500 P	100	10	10	10	10	10	10	10					
S&P 500 F	100	10	10	10	10	10	10	10					

	Dec. 87				Jan. 88				Apr. 88					
	Vol.	Low	High	Sett.	Vol.	Low	High	Sett.	Vol.	Low	High	Sett.		
ABN P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL48.30
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL48.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL49.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL49.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL50.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL50.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL51.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL51.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL52.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL52.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL53.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL53.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL54.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL54.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL55.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL55.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL56.00
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ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL57.00
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ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL58.00
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ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL62.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL63.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL63.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL64.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL64.50
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ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL69.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL70.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL70.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL71.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL71.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL72.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL72.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL73.00
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ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL75.00
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ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL76.00
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ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL77.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL77.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL78.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL78.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL79.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL79.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL80.00
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ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL84.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL85.00
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ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL86.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL86.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL87.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL87.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL88.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL88.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL89.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL89.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL90.00
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ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL91.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL92.00
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ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL93.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL93.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL94.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL94.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL95.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL95.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL96.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL96.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL97.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL97.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL98.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL98.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL99.00
ABN P P	100	10	10	10	10	10	10	10	10	10	10	10	10	FL99.50
ABN P F	100	10	10	10	10	10	10	10	10	10	10	10	10	FL100.00
ABN P P	100	10	10	10	10	10	10	1						

INSURANCES

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LONDON SHARE SERVICE

BRITISH FUNDS						BRITISH FUNDS—Contd						FOREIGN BONDS & RAILS					
Interest	Stock	Price	Last	Yield	Int. Paid	Interest	Stock	Price	Last	Yield	Int. Paid	Interest	Stock	Price	Last	Yield	Int. Paid
"Shorts" (Lives up to Five Years)						Index-Linked											
24hr 24hr 24hr 1992	100.2713	11.98	10.10			(1)	(2)					12hr 12hr 12hr 1992	53.15	13.50	10.00		
24hr 24hr 24hr 1993	100.2713	11.98	10.10			(3)	(4)					12hr 12hr 12hr 1993	53.15	13.50	10.00		
24hr 24hr 24hr 1994	100.2713	11.98	10.10			(5)	(6)					12hr 12hr 12hr 1994	53.15	13.50	10.00		
24hr 24hr 24hr 1995	100.2713	11.98	10.10			(7)	(8)					12hr 12hr 12hr 1995	53.15	13.50	10.00		
24hr 24hr 24hr 1996	100.2713	11.98	10.10			(9)	(10)					12hr 12hr 12hr 1996	53.15	13.50	10.00		
24hr 24hr 24hr 1997	100.2713	11.98	10.10			(11)	(12)					12hr 12hr 12hr 1997	53.15	13.50	10.00		
24hr 24hr 24hr 1998	100.2713	11.98	10.10			(13)	(14)					12hr 12hr 12hr 1998	53.15	13.50	10.00		
24hr 24hr 24hr 1999	100.2713	11.98	10.10			(15)	(16)					12hr 12hr 12hr 1999	53.15	13.50	10.00		
24hr 24hr 24hr 2000	100.2713	11.98	10.10			(17)	(18)					12hr 12hr 12hr 2000	53.15	13.50	10.00		
24hr 24hr 24hr 2001	100.2713	11.98	10.10			(19)	(20)					12hr 12hr 12hr 2001	53.15	13.50	10.00		
24hr 24hr 24hr 2002	100.2713	11.98	10.10			(21)	(22)					12hr 12hr 12hr 2002	53.15	13.50	10.00		
24hr 24hr 24hr 2003	100.2713	11.98	10.10			(23)	(24)					12hr 12hr 12hr 2003	53.15	13.50	10.00		
24hr 24hr 24hr 2004	100.2713	11.98	10.10			(25)	(26)					12hr 12hr 12hr 2004	53.15	13.50	10.00		
24hr 24hr 24hr 2005	100.2713	11.98	10.10			(27)	(28)					12hr 12hr 12hr 2005	53.15	13.50	10.00		
24hr 24hr 24hr 2006	100.2713	11.98	10.10			(29)	(30)					12hr 12hr 12hr 2006	53.15	13.50	10.00		
24hr 24hr 24hr 2007	100.2713	11.98	10.10			(31)	(32)					12hr 12hr 12hr 2007	53.15	13.50	10.00		
24hr 24hr 24hr 2008	100.2713	11.98	10.10			(33)	(34)					12hr 12hr 12hr 2008	53.15	13.50	10.00		
24hr 24hr 24hr 2009	100.2713	11.98	10.10			(35)	(36)					12hr 12hr 12hr 2009	53.15	13.50	10.00		
24hr 24hr 24hr 2010	100.2713	11.98	10.10			(37)	(38)					12hr 12hr 12hr 2010	53.15	13.50	10.00		
24hr 24hr 24hr 2011	100.2713	11.98	10.10			(39)	(40)					12hr 12hr 12hr 2011	53.15	13.50	10.00		
24hr 24hr 24hr 2012	100.2713	11.98	10.10			(41)	(42)					12hr 12hr 12hr 2012	53.15	13.50	10.00		
24hr 24hr 24hr 2013	100.2713	11.98	10.10			(43)	(44)					12hr 12hr 12hr 2013	53.15	13.50	10.00		
24hr 24hr 24hr 2014	100.2713	11.98	10.10			(45)	(46)					12hr 12hr 12hr 2014					

INDUSTRIALS—Continued

INDUSTRIALS—Continued

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10	10.6	NEI
9	10.5	Nat West Bk
8	10.4	P & O Ind
7	10.3	Polly Pkcs
6	10.2	Racal Elect
5	10.1	RHM
4	10.0	Rank Org Dng
3	9.9	Royal Ind
2	9.8	STC
1	9.7	Sears
		TSB
		Thorn EMI
		Trust Houses
		Turner Newsw
		Unilever
		Vickers
		Wellcome
		Property
		Brit Land
		Land Securitie

	Grand Met.	125	MEPC
	GUS W	125	Peachy
	Guardian	95	
	GKN	38	
	Hanson Ltd	17	Brit Petroleum
0.8	Hawker Sid	50	Britoil
	ICI	125	Burmah Oil
	Imperial	52	Charterhall
	Laurelco	45	Premier
	Legal & Gen	32	Shell
	Lex Service	35	Tricorol
	Lloyds Bank	35	Ultramar
0.8	Luce	75	Mines
	M&S	55	Gen Gold
	Mills & Spence	45	Lorino
	Midland BN	35	Rio T Zinc
	Morgan Grenfell	35	

A selection of Options traded in the London Stock Exchange Report

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_____	40
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MANAGEMENT

How FII got in step with lasting technology

Alice Rawsthorn explains the growth of a British shoemaker

THE STORY OF a company using new technology to cut costs by reducing its workforce sounds all too familiar. By contrast the story of a company using new technology to create new jobs is rather less so.

Yet this is what the FII Group, the second largest footwear manufacturer in Britain, has achieved by using the improvements in productivity wrought by new technology to build its business and to increase its workforce.

Throughout the 1970s and 1980s, when so many British shoemakers were ravaged by the influx of imports, the FII Group pursued a policy of investment in automation. As its production process has become more automated and thus less labour-intensive the company has cut costs. But it has also used automation to diversify into new niches of the shoe market and to produce more intricate products at competitive prices.

The oldest established FII Group plant, the Fiona Footwear factory in South Wales, is a prime example of this policy. In the past five years Fiona, which manufactures shoes for Marks and Spencer and other multiples, has harnessed the benefits of new technology to double its turnover to £18.7m. It has also increased its workforce to 600 people by creating 170 new jobs in an area ravaged by the decline of its traditional coal and steel industries.

In the past decade imported shoes from Italy, Spain and Italy have flooded onto the British market. The influx of imports began in the 1950s, accelerated through the 1970s, and reached a peak of 61 per cent of all shoes sold in 1984. The British footwear industry was devastated. Companies closed and jobs were lost.

Some companies, like the FII Group, have survived. Yet the management is convinced that, without access to automation, the company's prospects would have been far from rosy.

New technology has benefited Fiona Footwear in the conventional way. By reducing the labour intensity of its production process it has made the factory

more competitive. In the period in which Fiona's output has increased by 100 per cent, the number of people it employs has risen by just 40 per cent. Thus, in a sense, automation has "stolen" jobs within the factory.

This phenomenon is most marked in the assembly, or 'lasting' process, where manpower has been radically reduced. Today seven people produce 100 dozen pairs of shoes in an eight hour shift. Five years ago it would have been 12.

Moreover, much of the work within lasting has been deskilled; this enables Fiona to deploy inexperienced workers for once complex tasks. One of the most skilled jobs in footwear production - the 'roughing' of the sole of the shoe, so that adhesive can be stuck on - is now fully automated.

It is innovations such as these which have enabled Fiona to compete with imports in traditional cost areas. But it is the changes taking place within the stitching, or 'closing' of the shoe which have allowed the factory to increase the value-added content of its products and thus to move into markets hitherto the preserve of overseas manufacturers with low labour costs.

Fiona now has four computer-controlled sewing machines. These create intricate decorative effects on shoes such as banding motifs and complex stitching patterns. Some of these effects could be replicated by highly skilled machinists, but given the length of time and standard of accuracy required it would not be cost effective. Other effects are so intricate that they could only be produced through automation.

Whereas decorative stitching was once highly skilled work, the computer-controlled machines are relatively simple to operate. Moreover, the latest computerised models are even faster and easier to programme than the originals.

war he set up in business on his own.

Originally the FII Group specialised in the manufacture of mule slippers and sandals. It grew rapidly during the 1960s and in 1974 bought Fiona Footwear, then an ailing shoe manufacturer in South Wales. Today it is the largest supplier of women's shoes to Marks and Spencer.

Monty Sumray is convinced that technology is the tool with which British manufacturers can become more competitive and win business back from imports.

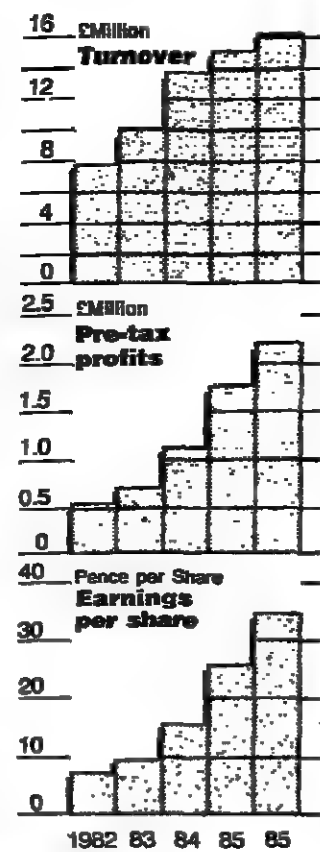
Last year Fiona opened a £4.5m factory in South Wales, one of the most advanced in Europe. The group also acquired Lotus, one of the oldest established British shoemakers, which had fallen from grace in the past decade or so. Work has now begun on restoring the fortunes of Lotus and its brand name.

Like Fiona are structured and managed. Thus far the development of footwear technology has been a relatively slow process; but the pace of change is now quickening, presenting an even greater challenge to management.

One problem for a factory like Fiona is that it must now encourage its employees - many of whom have been in the same jobs for years - to move around within the plant to perform a variety of tasks in different parts of the production process. The fact that automation has deskilled many of the jobs within the plant eases this task, yet the management still faces the task of persuading the workers to adopt a more flexible approach to their jobs.

Training plays a crucial role in this. Given that South Wales is not a traditional shoemaking area, Fiona has never been able to call upon a pool of experienced labour. Thus there has always been a need for training facilities to cope with the constant flow of new workers, mostly school leavers, entering the plant.

FII GROUP



Monty Sumray

side the experienced machinists teaches ten new employees every two months. Within other areas of the factory, workers are trained to operate new machinery or to develop new skills, as their old jobs become redundant.

As the pace of automation accelerates - new facilities like computerised cutting and computer-aided design should come on stream within the next few years - the need for retraining will intensify. The factory will derive further benefits from falling costs and a more flexible production process. Its management also intends to diversify further into new niches of the footwear market by introducing yet more complex styles.

This task may be eased by the changes that automation is effecting within shoe retailing. Thanks to the introduction of electronic point of sale systems, retailers are now able to respond more swiftly to changes in consumer demand and thus require a speedier service from their suppliers.

This offers a real opportunity for the British industry to use new technology rapidly to change tack at retailers' behest and win back lost sales from its overseas competitors.

Analysing research

Where to draw the line

Michael Skapinker ponders training and management development

IF ANY COMPANIES have responded to the Handy and Constable reports on management development by committing themselves to specific levels of expenditure on training and education they should probably think again.

One distinctive feature of those British companies which take management development seriously is that they have only the vaguest notion of how much they spend on it.

This emerges from the information collected by one of the four working parties whose recently published research formed the background to the Constable report.

The working party, headed by Professor Iain Mangham of Bath University's School of Management, spent its time looking for the good news. It conducted interviews with officials of ten British companies which were seen as leaders in the field of management development.

The 10 were Shell UK, National Westminster Bank, Unilever, the Dixons Group, Coopers and Lybrand, FW Woolworth, BP, Courtaulds, British Airways and ICL.

Although all 10 devote substantial resources to management development, most could not say what their overall expenditure was. In many cases this was because their staff have to maintain a high level of

technical competence. The companies said that they found it difficult to separate expenditure on technical training from expenditure devoted to management development.

In other cases, responsibility for training had been pushed down into the companies' subsidiaries so that no overall figures were kept.

But the central reason for this gap in these successful organisations' knowledge is that for them management development extends beyond formal instruction to, for example, shuffling managers between sectors of the business or between countries.

"How the hell you measure on-the-job training I don't know because it must be one of the most significant, if not the greatest, training situation," a manager with Shell UK told the working party.

Another reason that the companies shy away from specific numbers is that it detracts from their emphasis on the quality of training. Cost on its own is not a reliable indicator, the working party concluded.

Before the major shake-up that has taken place at Woolworth in recent years, the company had a training department of 13 full-time trainers and a budget of over £5m. But "it was largely spent on charlatan consultants doing esoteric things - what they thought they ought to do because they'd read it somewhere," an official of the company said.

British Airways added that "for one American, you can probably get three UK consultants. There is a trade-off because people will listen to an American much more than they will listen to someone from the UK. And what the Americans bring to the programme is energy and commitment."

Several of the organisations used American consultants and academics to assist in their development programmes. The working party concluded that some of the Americans seemed "better able to breathe life and vitality into the process of training and developing managers than many of their UK counterparts."

The companies were not, however, as enthusiastic about that other US import, the Master of Business Administration degree. Some of the companies felt, predictably, that MBA degrees were too theoretical and not sufficiently focussed.

Others, like Unilever, worried that if you sent a manager to do an MBA, he or she would then leave for something better. Shell UK said, "we don't as a company employ many MBAs because we can't afford to mostly. We find that they go to the City at much higher rates."

There was one company that was enthusiastic about MBAs: Courtaulds, whose chairman, Sir Christopher Hogg, is himself a Harvard MBA.

The four working party reports are available from Karen Jones, BIM Management Information Centre, Cottenham Road, Croydon, Surrey CR9 1PT. £25 each for BIM members, £7.50 for non-members.

Business courses

Selecting sales and marketing staff, London, September 30. Fee: £140+VAT (non-members); £120+VAT (members) from IM Marketing Training, Moor Hall, Cookham, Maidenhead, Berks. SL6 9QH. Tel: 06285 24622 ext 2223.

Strategic management for the 1990s, London, October 14. Fee: £172.50 (members and registered students); £195.50 (non-members). Details from Management and Professional Development, The Chartered Institute of Management Accountants, 68 Portland Place, London W1N 4AB. Tel: 01-637 2223.

Risk Management Planning and Systems, London, November 17. Fee: £255 + VAT. Details from

2311. Tel: 25816 CIMA G. Times management, London, October 14. Fee: £175. Details from Course Organiser (GMI7), Management Development Centre, City University Business School, Frobisher Crescent, Brixton, London SW2 2BZ. Tel: 01-820 0111 ext 315. Fax: 01-885 2766.

Loans to companies - legal requirements, security and terms, London, October 22. Fee: £224.95. Details from Lisa Hamilton-Price, Legal Studies & Services, Bath House, 56 Holborn Viaduct, London EC1A 2EX. Tel: 01-236 4080. Tel: 888970.

Yvonne Modlin, International Business Communications, Bath House (3rd floor), 56 Holborn Viaduct, London EC1A 2EX. Tel: 01-236 4080. Tel: 888970.

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Closing prices, September 4

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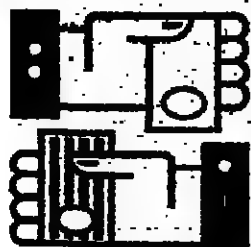
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OVER-THE-COUNTER

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SECTION III

FINANCIAL TIMES SURVEY



The strength of its recent recovery has still left nagging questions about the industry's underlying financial health. The signs are that the next downturn is coming more quickly than many expected, but that it will not be as harsh as in the mid-1980s, writes Nick Bunker, as the world's reinsurers gather in Monte Carlo.

Recovery sets new queries

AS THE leaders of the world's \$50bn reinsurance industry gather today in Monte Carlo for one of the most important events in their working year, they stand at what may be another turning point in their cyclical fortunes.

After three years of recovery in the industry's operations, Mr Jim Payne, chairman of E W Payne, the world's second biggest reinsurance broker, puts the situation neatly. "It's a very confusing scenario," he says. "It's like being at the point in a river estuary where all the waters meet."

The reinsurance industry's state of health matters far beyond the hotels and restaurants of Monaco, the venue this week for the 31st annual *Rendez-Vous de Septembre*. At the *Rendez-Vous*, brokers and reinsurers meet to start making deals which will be consummated at the end of the year when most reinsurance contracts come up for renewal.

Since the 1980s, their industry has usually accounted for a premium figure about one-seventh the size of the world's non-life insurance revenues - which, in 1985, were about \$240bn.

By accepting a share in the insurance business written by primary insurance companies, reinsurers provide a mechanism for spreading the world's biggest risks.

They also exercise an important influence on domestic insurance markets, since the easy availability of reinsurance can depress the prices charged by primary carriers. A shortage of capacity, on the other hand, can help force prices up to ordinary customers in the primary market.

Last year was the great recovery year for profits in the US property/casualty insurance industry - the place where the big money is made and lost - and the reinsurance community did not miss out.

Sharp premium rate increases and a shortage of risk-taking capacity have helped reinsurers to climb out of the deep trough that the industry dug for itself in the early to mid-1980s after a six-year price war caused by over-capacity and reckless underwriting.

One measure of that recovery appeared this June. A survey of 33 US companies, by the Reinsurance Association of America, showed that they were almost making a pure underwriting profit, even before allowing for their investment earnings.

Claims and expenses totalled only 100.8 per cent of their premium income. It was a far cry from the troubled days of 1984, when the BAA reported an average of 128 per cent among the companies it monitored, or 1985, when the figure was 121.

Yet the very strength of the recovery has brought questions in its wake, and left more observers than just Mr Payne with a list of questions to be answered and problems to be solved.

First, how long will the recovery last - and how solid is the industry's underlying financial health?

As rate increases decelerate, or turn into actual reductions, in the US and other primary markets, so primary insurers will seek to buy more reinsurance as a way of protecting their profits.

Mr Dewey Clark, vice-president international of the Prudential Re of New Jersey, put it this way at Britain's Reinsurance Offices Association (ROA) conference in April:

"The insurer is going to be looking somewhere to improve results, and I think they are going to be looking very much to us in next year's negotiations. There is going to be a very difficult year from pressure from the insurers."

There are other questions. Did some reinsurers take such tough remedial measures in the years 1984-7 that they have stopped being in the risk business at all?

That is a charge levelled by some London primary insurers, especially at Lloyd's, against the powerful German reinsurers. The Munich Re is sometimes singled out, because of its resistance to taking US casualty or international professional indemnity business, the sources of some of the worst losses in the mid-1980s.

Some players are also asking whether there are steps that can be taken - by agreeing new codes of practice, by using new information technology, or by better financial control - to manage the inevitable underwriting cycles more skilfully.

It is not that many people are suggesting that the recovery is peaking in preparation for an imminent down-turn into a bout of competition as fierce as that from 1978-1984. In some markets, prices and conditions for certain reinsurance risks are beginning to ease again as underwriters gain confidence. There were indications of softening even in the US market this summer, though it was mainly a matter of reinsurers offering more cover, rather than of price reductions.

Yet there are a series of now familiar arguments suggesting that the next big down-turn may still be some way off, and less destructive than the last. Hence the comment by Mr Robin Jackson, active underwriter for non-marine syndicate 789, one of the biggest at Lloyd's of London, that he is "bullish" about reinsurers' prospects in the US at least.

One of the arguments concerns capacity. Resources have been returning to the industry, with, for instance, capital-raising ventures by US reinsurers. General Re, the biggest, raised \$710m of debt and equity in 1985-6.

But there are few signs of a return to the market of the Latin American or Eastern European reinsurers, whose so-called "naive capacity" was a vehicle for some of the worst rate-cutting in 1978-84. The factor which brought them in nine years ago - and triggered the price war - was the high level of interest rates. This encouraged "cash-flow underwriting", where reinsurers cut their prices so as to suck in premium money to be invested at high returns.

With interest rates much lower than in the early 1980s, that should not be so prevalent in 1988-9, though inevitably some players will succumb to temptation if interest rates rise.

The big players are also showing prudence in the way they commit their resources. General Re recently launched a stock-repurchase programme, shrinking its capital; and more broadly capacity for US casualty risks remains tight. Reinsurers are still anxious about the big, unpredictable US court awards which have inflated casualty claims in the last decade.

A further healthy sign is the greater attention being paid by brokers and reinsurers to the financial security of reinsurers with whom they place business. Rating agencies - like Standard & Poor's, A M Best and Mr John Gardner's London-based Insurance Solvency International - have all been extending their rating services to cover a broader spread of international companies.

There are further factors which should induce caution by reinsurers, and help to prevent rate-cutting.

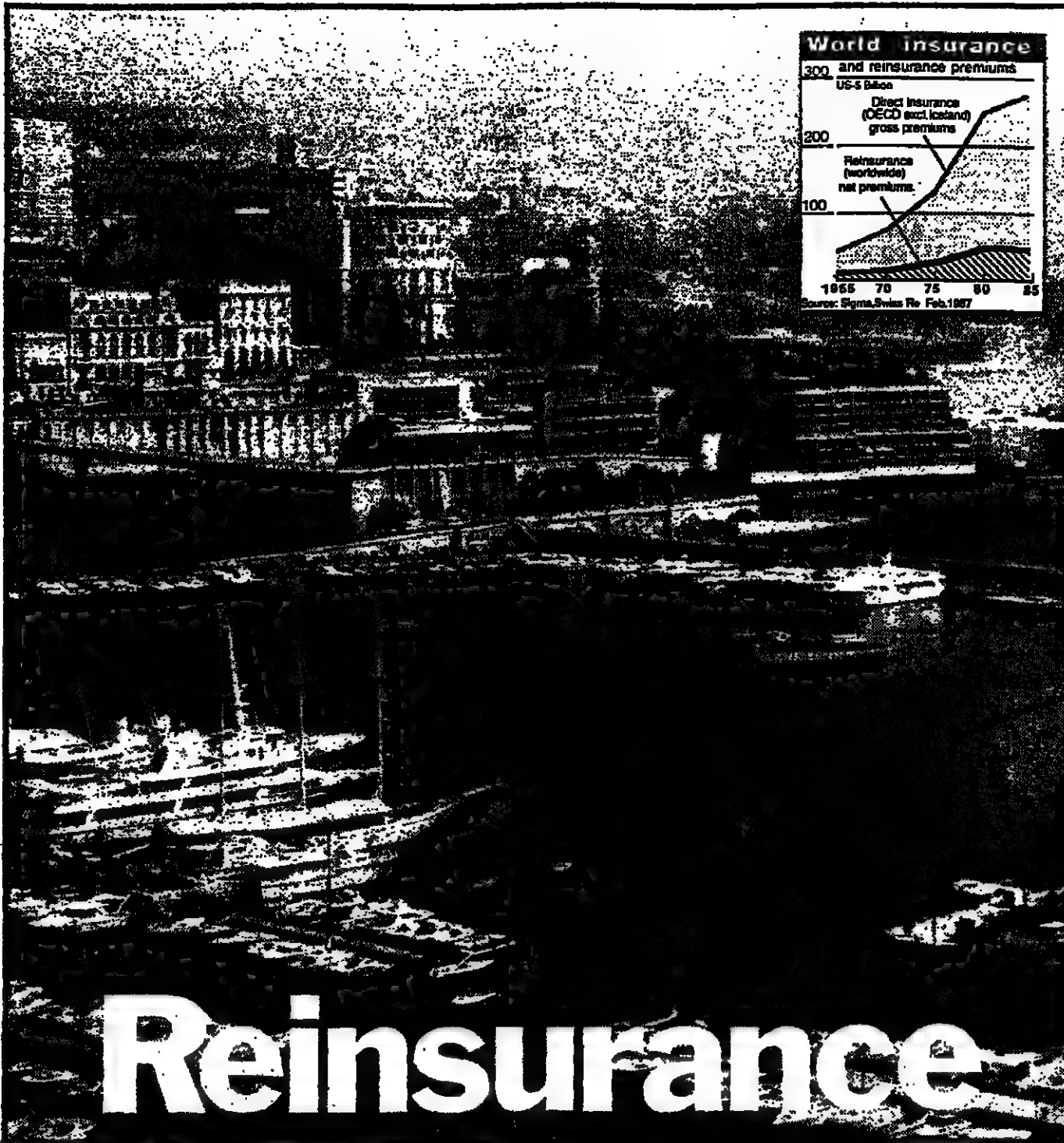
●1986 was profitable, but reinsurers still need more good years to rebuild their reserves. Estimates of under-reserving by the US insurance and reinsurance industry vary from \$10bn to \$40bn, according to Mr Clark.

●Nobody knows how much reinsurance is "uncollectable" as a side-effect of the wave of insolvencies that hit the primary and secondary insurance markets in 1984-5. Reinsurers may have trouble collecting from the retrocessional market in which they reinsure themselves.

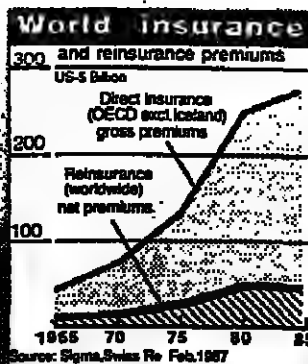
●Hazardous-waste clean-up claims from the US could turn out to be as big a problem as asbestosis, which has cost insurers and reinsurers worldwide billions of dollars in compensation for North American victims. This summer, Westinghouse Electric sued all its insurers since 1948 for what might be \$1bn, to help meet the cost of cleaning up 74 hazardous-waste sites.

There are also signs that, in some quarters, the reinsurance industry's longest-established players are taking steps to eradicate defects in market practices. These include problems like the unacceptably slow of premium and claims money in some markets, and the confusion, uncertainty and tortuous disputes often generated by the lack of codes of conduct.

In Britain, for instance, the ROA - which represents about 330 reinsurance companies worldwide, of which about 105 do business in London - has set up a working party on the vexed issue of market standards.



Monte Carlo: deals made there today will be consummated at the end of the year

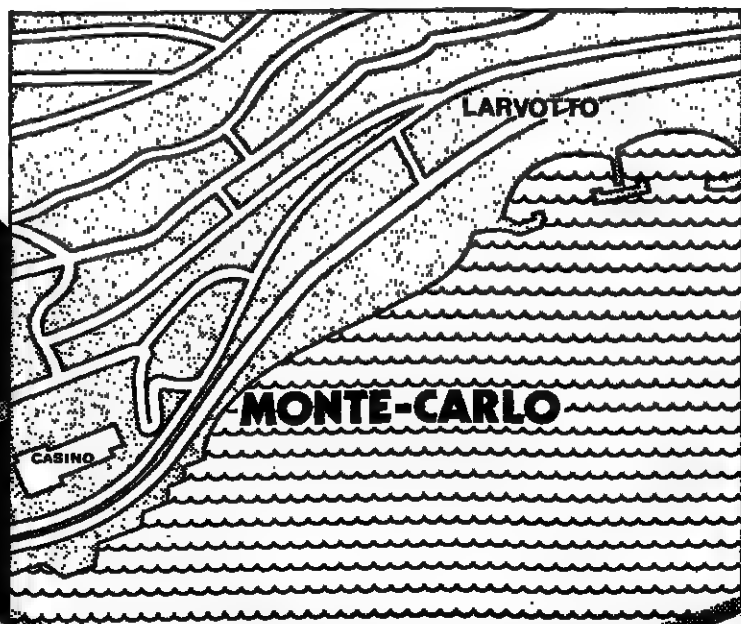


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Employers Re	1,211,522	1,094,804	917,340	83.8	255,872	21.1	104.9
American Re-ins. Co	947,494	906,841	666,784	73.5	232,165	24.5	98.0
North American/Swiss Re	736,916	684,177	520,132	76.0	231,754	31.4	107.4
Prudential Re Group	676,947	640,932	468,693	73.1	188,695	27.8	100.9
Manich Re Group	671,798	600,986	409,933	68.2	187,713	23.4	97.6
Kemper Re	405,980	407,696	342,210	83.5	77,369	19.1	103.0
National Re	352,127	329,857	250,545	80.0	56,334	16.0	104.0
USF&G Co	333,562	270,174	163,193	60.4	114,672	34.4	94.8
Continental Re Group	280,714	244,373	160,018	65.5	85,999	33.0	98.5
INA Re	256,773	248,265	194,013	78.1	70,615	27.5	105.8
Transatlantic Re	251,958	233,659	194,748	83.3	64,252	25.5	108.8
St. Paul F&M	235,022	220,311	180,028	72.6	65,107	27.9	102.5
Constitution Re	225,223	191,620	148,961	76.7	54,503	24.1	100.8
Constitution State Mgmt.	222,581	186,877	167,064	84.1	53,228	23.9	108.0
New York Ins. Exchange	198,489	206,434	205,404	99.5	67,409	34.0	133.5
Swedish American Group	193,602	192,145	158,543	82.5	51,358	25.1	114.2
Putnam Reinsurance	187,583	138,116	124,772	91.7	19,036	8.0	99.7
US Int'l Re (formerly Home)	174,953	140,779	114,865	81.6	32,179	18.4	100.0
Buffalo Re	166,005	178,316	162,907	91.4	27,844	16.8	108.2
Metropolitan Re	136,290	123,966	88,085	71.0	35,497	26.0	97.0
American Agt. Ins. Co	124,683	122,462	94,967	77.5	17,977	14.5	92.0
MAC Re	122,688	91,723	73,792	80.3	24,078	26.1	109.8
Reins. Corp. of N.Y.	113,347	98,354	80,779	81.3	28,618	25.2	106.5
PMA Re Corp	111,484	101,822	87,132	85.7	19,588	17.6	103.3
All Others	412,571	560,796	565,741	100.8	97,998	23.8	124.7

Source: Reinsurance Assn. of America Research: Tokyo: Nishiguchi

The US

Two clouds over the market

AT THE beginning of June, General Re said it would spend \$300m buying in its own stock.

The announcement, from America's largest and most respectable reinsurer, seemed odd at the time. While the rest of the reinsurance industry was reporting decent profits after a very difficult few years, General Re was actually taking capital out of the business.

The rule-of-thumb in the industry is that \$1 of capital will allow insurance cover generating up to \$2 in premiums. In other words, General Re was foregoing \$300m in profitable premium income, or almost as much as it pulls in every quarter, in favour of investing in its stock.

The stock market has not been kind to General Re's decision. The market usually reacts to buy-back proposals by marking up share prices, but this time it instead gave a 'loud yawn', says Mr Herbert Goodfriend, of Prudential-Sache Securities, said recently.

With almost all insurance stocks badly out of favour, General Re stock has drifted downwards despite a strong rise in the market overall. However, General Re's decision to reduce its capital employed is not as perverse as it sounds. At the same time as it reported its earnings, the company revealed that, after several quarters of dramatic improvement, net premiums written actually fell by nearly 6 per cent. This was because the primary insurers, enjoying the same recovery in rates, are now strong and confident enough to retain more risk for themselves.

In the cyclical world of reinsurance, this is usually one of the harbingers of a ruinous price war. The stock market, which has spurned insurance and reinsurance stocks for over a year, certainly thinks that the current boom will soon give way to the sort of bust of the 1983-5 period.

At rock bottom in 1984, it was costing the reinsurance industry \$1.25 in expenses and claims to write \$1 in premiums. Syndicates dropped like flies out of the New York Insurance Exchange and some 15 companies went into liquidation or - in the case of some companies of the Mission Group - conservatism.

But General Re has evidently decided that it is not going to scramble for market share. The optimists are hoping other reinsurers have learned their lesson from the recent horrors and that the downturn, when it comes, will not be so severe.

The buy-back shows that they are not going to reach for business, says Mr Myron Picoult, an analyst at Oppenheimer.

Capacity is certainly returning to the market. According to the Reinsurance Association of America, the US reinsurers' capital base - or policyholders' surplus, as it is known - swelled by 56 per cent to \$7.95bn last year. Although the industry is not 'gearing up' aggressively, with the premiums/surplus ratio falling from 1.8:1 to 1.5:1, that is still quite a lot of extra capital to compete with.

On the plus side, at least foreign reinsurers remain very chary of the US market. Lloyd's and the West German and Swiss reinsurers are 'continuing to lose share in the US market', says Mr Andre Maisonnier, president of the Reinsurance Association.

Foreign reinsurers are undoubtedly unhappy about the foreign exchange risk of an uncertain dollar, but their real aversion is to the liability market, where a few large jury awards have received wide-spread attention. Ironically, and fortunately for the insurance industry, these same awards have caused many companies to scramble for liability cover and pay handsomely for it.

The result is that, for the moment, it remains a sellers' market. The reinsurers are still dictating strict terms on a number of lines, particularly those with the frightening ability to come back and haunt them years later. Reinsurers are still shy of writing 'treaty' reinsurance, whereby they share in the insurers' entire book of business, long-tail nasties and all. Last year, 34 per cent of transactions were still the more expensive 'facilitative' or risk-by-risk reinsurance.

Most environmental liability, medical malpractice and professional liability lines are still apparently being taken from insurers only on a 'claims-made' basis. This means that claims can only be filed during the life of a policy and not, as with some long-tail lines, 20 years later.

Rates on bread-and-butter business, such as workers' compensation, automobile and property, are stable, or falling, but higher retentions by the primary market mean that rates actually rise. And, as last month's second quarter financial results show, many companies are making

profits from underwriting even before they count the income they derive from investing the premiums.

How long this pleasant state of affairs will last is anybody's guess. Mr Maisonnier, who is more optimistic than the stock market, says: 'I just don't see the competition for market share.' Provided there is no change of heart overseas, he believes the downturn will bring operating ratios - losses and expenses to premiums - of no worse than 110-odd.

But there are two clouds over the market. The first is the possibility that the industry is drastically under-reserved for some long-tail liability risk of the asbestos type. Many in the industry are anxious about old environmental liability policies. Mr Maisonnier gives the example of a policy written, say, in 1960 with the primary insurer retaining \$100,000 of the risk. If a clean-up is ordered today, at a cost of, say, \$5m, the major losses will be paid by the reinsurers, he says.

The other is the problem of uncollectable reinsurance. Recoverable reinsurance can turn out to be worthless, especially where the risk has been laid off overseas or with troubled companies. According to figures analysed by Mr Picoult, of Oppenheimer, reinsurance recoverables exceed the industry's entire surplus. And, while nobody needs worry about General Re whose surplus is more than double its recoverables, few companies are so conservative.

James Buchan

The US: legal and regulatory issues

Sharpening up the principles

REGULATORS ARE taking a closer look at America's reinsurers, and nobody should be too surprised.

The mid-1980s saw unprecedented turmoil in the world's reinsurance industry, as involvements and tortious litigation became commonplace. Yet, in the United States, officials in the 50 states' departments and the District of Columbia have largely been operating with a regulatory framework dating back to the immediate post war years.

It was in 1950 - the 'watershed' in modern reinsurance regulation, according to Kroil and Tract, the New York insurance law firm - that the National Association of Insurance Commissioners promulgated its 10 principles for regulating reinsurers.

The heart of these principles was the NAIC's desire to develop standards for assessing the financial strength of reinsur-

ance companies. Its anxiety on this issue had arisen in the years after 1945, because primary insurers were buying large amounts of reinsurance, and counting that reinsurance as an asset in their balance sheets.

Understandably, the NAIC members were unwilling to take a view about the strength of an insurance company's balance sheet without also taking a view about the financial strength of the companies from which it was buying reinsurance.

Recent regulatory developments in the US have not challenged the fundamental principles enshrined in the NAIC's 1950 declaration. Rather, they have sought to sharpen the application of those principles, and to extend them.

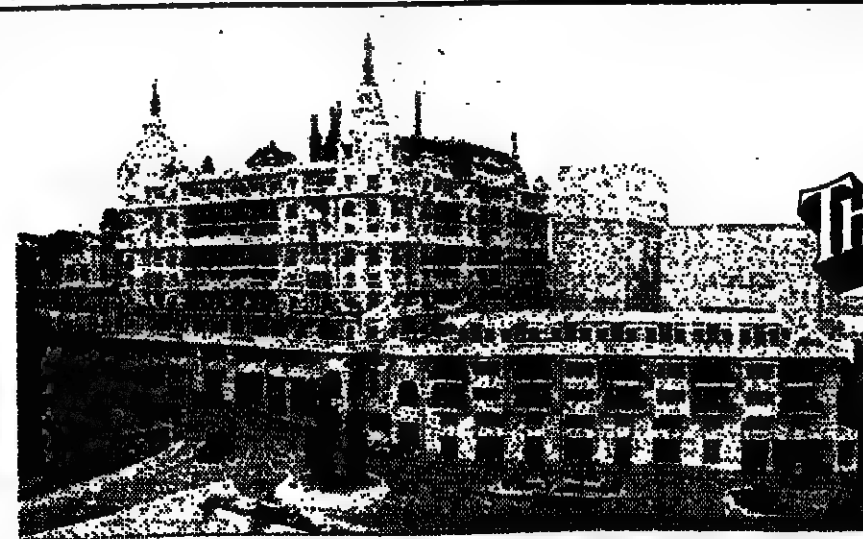
One reason lies in cases like that of the Mission. Los Angeles-based Mission Insurance Company went into liquidation this spring with liabilities of \$450m, after a two-year struggle to stay afloat. The role that reinsurance played in its downfall had emerged in December 1986. At that time, the California Insurance Department had sued 144 reinsurance companies for at least \$700m in unpaid claims allegedly owed by them to Mission. Mission had become one of the most public victims of an industry-wide scourge - 'uncollectable reinsurance'.

Like many American insurance companies, Mission had attempted to expand its business rapidly in the early to mid 1980s, at a time when fierce competition had forced down premium rates. In order to support its dash for growth, Mission had bought large quantities of reinsurance. It came unstuck when it faced an unexpected surge of claims and found that it could not collect money from its reinsurers because they were either bankrupt or unwilling to pay.

Nobody knows how many millions of pounds and dollars of reinsurance money has become uncollectable in this way, or because of insolvent insurers arising from the huge claims that the insurance and reinsurance industries have had to bear arising from phenomena like asbestos.

Mr Robin Jackson, underwriter for non-marine syndicate 799 at Lloyd's of London, believes there may be 'staggering' amounts of uncollectable money in the system. Faced with problems like these, regulators in the US have come up with two kinds of possible solution, in spite of the fact that there are many in the industry who believe that regulation should be kept to a minimum and that the authorities should rely on market forces to weed out weak reinsurance companies.

First, New York State introduced a 'stronger' test of financial strength for reinsurers. Continued on page 3



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REINSURANCE 3

Model law spreads

Continued from page 2

duced in 1982 a pioneering rule, called Regulation 98, to impose regulations for the first time in the US on reinsurance intermediaries. They are now required to have written authority from their clients, whether those clients are reinsured parties or reinsurance companies, before undertaking transactions.

Regulation 98 was introduced as a result of the Pritchard and Baird case, in which the reinsurance intermediary became insolvent and was found to have mixed up its funds with those of its clients.

While Regulation 98 was obviously not a reaction to the most recent spate of difficulties in the reinsurance community, other states besides New York, notably Texas and California, have in the last year responded to those difficulties by proposing forms of regulation for reinsurance intermediaries.

The second recent landmark was the NAIC's 1984 model law governing credit for reinsurance. For many years, state insurance departments have required insurance companies to obtain letters of credit or other kinds of security to guarantee the reinsurance which they buy. The 1984 model law tightened up the letter of credit requirement, by insisting that the letter of credit be for an amount including an allowance for so-called "incurred but not reported" (IBNR) claims payable under the reinsurance policies.

The model law is gradually being implemented by more and more states, while some, including California, are looking again at their entire policy towards the terms on which they will allow insurance companies to take credit in their business sheets for reinsurance recoverable from companies to which they have ceded business.

Also, says Mr Harold Tract, of Kroll & Tract, there is a general tendency for individual states (including, so far, Texas and Illinois) to increase the amounts of capital (called the "surplus" in the US) which they require a reinsurer to have to support its business. It was possible to have just \$10m of surplus and write business, says Mr Tract. "Now you need at least \$25m to be in the business at all."

Nick Barker

The US: reinsurance in London

Capacity still tight



Mr Jim Payne detects slight relaxation towards the US

the powers of reinsurers of US casualty business to secure further rate increases, and believes they will have firm control over their business market right through 1988.

Only in 1989 or 1990, he says, will it become clear whether they have all learned their lessons from the last underwriting cycle and can resist rate-cutting.

Where does all this leave the broker seeking capacity for his US clients' casualty reinsurance needs?

One possibility is to turn to "financial reinsurance", which can be arranged with offshore reinsurers in Bermuda. An example is a "time & distance" policy, where the reinsurer is really acting as a banker, agreeing to pay given sums of money back to the reinsured company at given dates.

But this is hardly enough. "A financial product is not a proper substitute for reinsurance," says Mr Jim Payne, chairman of E W Payne, the world's second biggest reinsurance broker, an arm of the Sedgwick Group. What primary insurers really want is to be able to transfer some of their underlying risk, rather than simply make a banking arrangement as a way of hedging against investment uncertainties.

The bottom line in London is fairly clear. According to Mr Payne, if US casualty reinsurance capacity in London was 100 in 1984, it fell to 15 in 1985-6. Now it is back at 20-25, but will

never again reach 100, he feels. "The haemorrhaging was just too severe," he says, though he detects "a very, very slight relaxation in the willingness of the market towards US risks."

On US property reinsurance, the London market's situation is rather different. Here, the key question is whether, in the 1988 renewal season, London underwriters will continue to resist pressures from the primary market, and from US reinsurers, to cut prices.

There have already been clear indications of a softening in property reinsurance rates in the US - where some brokers say they have seen 30 per cent cuts. One important factor is that 1986 was "a uniquely profitable year" for US property business, according to Mr Hady Wakefield, deputy chairman of C T Bowring's London reinsurance broking subsidiary. That was because of the combination of high rates, and the relative scarcity of windstorms.

This could now provoke an escalation of price competition. The pressure is especially hard on rates for "facultative" reinsurance - which covers the reinsured company against claims on a single big risk.

The facultative market virtually dried up in 1984-5, but London and US brokers say they now find facultative business much easier to place.

On the other hand, the widely-reported sales of property rate cutting by primary insurers in the US have created a "fear barrier" among London underwriters - especially the big, established Lloyd's non-marine syndicates. This barrier should strengthen their resolve to turn away business rather than chase premium rates downhill.

Industry observers will be watching closely, though, for any signs that competition is forcing London reinsurers to abandon tough restrictions on coverage - like the "sunset clauses", or the exclusions of pollution from property coverages - which they have imposed since 1985.

At the moment, the signs are that long-established lead underwriters at Lloyd's particularly will keep rates steady and give very little ground on contract-words. Some newer entrants in London, however, will be tempted to cut prices and relax their terms.

Nick Barker



Lloyd's leading underwriters signed a letter of intent

London brokers

Mood uncertain

LONDON'S REINSURANCE brokers are just a little uncertain - and perhaps uneasy - about what happens next, as the worldwide reinsurance cycle shows signs of peaking.

This April saw the renewal season for Japanese reinsurance contracts, most of them for property/catastrophe risks, like earthquake and windstorm. Rates neither rose nor fell, but there was more underwriting capacity available.

When it came to Australia's renewal date, on July 1, the signs of softening were clear. Some brokers reported rate reductions of 10 to 15 per cent for Australian property treaties.

Hence the mood of uncertainty, tinged with disquiet. On the one hand, London's big brokers are glad to be looking forward to a January 1988 renewal season for non-dollar risks that should be easier than 1986, or 1985, when a sudden, drastic

contraction of capacity made renewals a nightmare.

One element may still cause problems: the vexed question of "seepage and pollution" exclusions. In 1986-7, reinsurers were unnerved by fears that they would indirectly foot much of the multi-billion dollar bill for cleaning up hazardous waste sites in the US. Hence, the determined effort by London reinsurers last year to exclude seepage and pollution cover, even from non-American property treaties.

This issue is still "in limbo", according to Mr Dieter Losse, of Greig Fester, the Lloyd's broker. In 1987, the matter was tentatively concluded by a "letter of intent" to exclude seepage and pollution, signed by leading Lloyd's and company underwriters. That has left reinsurers still trying to win some concessions from reinsurers. "We're trying to get them to

assess the matter on a case-by-case basis," says Mr Ron Iles, joint chairman of the Alexander Howden Group.

Yet, in spite of the prospect of further fraught negotiations on that point, most London reinsurance brokers tend to agree with Mr Hady Wakefield, deputy chairman of C T Bowring (Reinsurance). "This year-end will be a much more traditional renewal season," he says. "We'll be haggle about prices and deductibles rather than about definitions of coverage."

The elements of anxiety among brokers creep in precisely because of the speed with which the market is starting to soften again, after only two to three years of steep rate increases and tight capacity.

A softer market should benefit the brokers by boosting their turnover. Insurance companies tend to buy more reinsurance as premium rates fall in the prime-

ry market.

On the other hand, few brokers will be happy if a downturn in reinsurance rates in 1988 is the prelude to a savage price-war of the kind which blew the bottom off much of the industry in the early to mid-1980s.

Fears of a swift return to a soft market can be over-done, of course.

First, the Australian renewal season may offer no clear guide to what happens at the year-end. Australia, after all, has a strong, competitive domestic reinsurance industry, and significant price increases achieved there in the last few years may have led to technical corrections this year.

Second, there are signs that London underwriters are determined not to follow rate-reductions by primary insurers or foreign reinsurance companies. Some brokers saw indications this summer, for instance, that London was losing non-dollar property catastrophe reinsurance business because of strong competition from the Munich Re and the Swiss Re.

Third, even non-dollar casualty reinsurance capacity remains relatively tight. This is partly because of the absence of the so-called "naive capacity" - such as Latin American, or Eastern Bloc reinsurers, which contributed to much of the pre-1984 rate-cutting. But it also reflects tough underwriting attitudes.

On professional indemnity accounts, the London market is still feeling the impact of the Munich Re's withdrawal from the area three years ago at a time when big damages awards against international accountancy firms were emerging.

Michael Payne, the active underwriter for Lloyd's non-marine syndicate 386, which leads much of this business in London, hit a period earlier this year when he could find no professional indemnity reinsurance at all.

At the same time, reinsurers' hostile attitudes towards North American casualty business have spilled over into their assessment of non-dollar product liability accounts. Mr Payne was finding this year that he could write only the first \$5m of a \$50m liability policy for a large British manufacturing company. He used to be able to write the first \$25m - but has lost one of his layers of reinsurance.

These factors should keep widespread rate-cutting at bay for some time yet. But - amidst all the uncertainty - one thing is clear. "Leading underwriters are resisting it - but you'll be seeing a softer market from here on in," according to Mr Calum Stewart, a director of C E Heath, the Lloyd's broker.

Nick Barker



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REINSURANCE 4

Profile: Victory Insurance Company

Long-term field niche player

VICTORY INSURANCE Company, a member of the Legal and General Group, is the second largest UK registered reinsurer company, but still a small player in the global market alongside the giant multinational groups.

Its revenue premium income last year was £141m, of which £20m came from general reinsurance and £61m from long-term business. Premium income this year is expected to reach £170m.

The company's main area of operation is still the UK and Europe (served from the UK), with the UK accounting for 35-40 per cent of business. It operates in Australia and New Zealand, Canada and the US, Hong Kong and Bermuda.

Its US involvement is comparatively small, around 10 per cent of its overall business; and, as chief executive John Butcher points out, Victory is to some extent a niche player in certain areas. Its US business, for example, is confined mainly to the property sector.

The company has little involvement in Africa and very little in South America. Nevertheless, Victory was hit as hard as any reinsurer on its general reinsurance business in the recent recession and, as Mr Butcher admits, was slower than most to come out of it. In his words, Victory was hit hard by "one or two nasties".

The company took the necessary corrective underwriting measures early enough, in line with the other reinsurers, putting up its prices and taking a

tougher line on the terms. Its rather high level of proportional business was a severe handicap in taking the necessary corrective measures. But Mr Butcher feels that the company was about 12 months behind companies like Mercantile and General Reinsurance in taking the necessary action to strengthen the reserves.

When conditions become adverse reinsurers can lose a lot of money

As a result, it is still recording operating losses on its general reinsurance operations - a feature seen for the last few years. The £14m overall operating profit achieved last year - the first for three years - came from buoyant long-term reinsurance business.

Victory is comparatively strong for its size in the long-term reinsurance, though in absolute terms its premium revenue is dwarfed by that of the multinational reinsurance giants. It has achieved its success in the long-term field by being something of a niche player - offering direct life company clients services beyond that of providing reinsurance on life risks.

In this respect, Victory has made itself a specialist in the reinsurance of long-term sickness contracts - known as PHI (Permanent Health Insurance). Mr Butcher, who became chief executive just over a year

ago, is not in a position even to indicate whether Victory is fully back into profitability this year, since the company's parent Legal and General reports its interim results in the middle of September. But he is certain of the way he wants to develop Victory: build on its strengths.

For this reason, he is cautious about expansion into the US. Every development in the US reinsurance operations he sees as a recipe for disaster. He sees the Far East as a more favourable area, and is optimistic about business from the UK.

So, on the general insurance side, efforts will be concentrated on expanding the fast growing and profitable Marine and Aviation account, which has seen premium revenue triple in three years so that it represents nearly a quarter of the business. On the property/casualty business, the excess account is now growing at a faster rate than proportional business.

However, Mr Butcher's enthusiasm for the future of Victory rests with the development of its long-term reinsurance business, which is less volatile and far less cyclical in its performance.

When conditions are favourable, reinsurers can make excellent profits from general reinsurance business. But when conditions become adverse, they can lose a lot of money from this business, as Victory has learned the hard way.

A period of more stable profitability appears to look attractive to the company. Mr Butcher considers Europe to be ripe for

expansion in long-term business. But this growth will not be from the traditional risk reinsurance services, where the home-based giant multinationals already provide these services, but from the ancillary services now provided by reinsurers - product development and marketing.

European life companies are now starting to show interest in unit-linked business - two decades behind development in the UK. But it is an unknown field for many of these companies. Victory, through its UK long-term reinsurance operations, has been providing product development, marketing and financing help to clients, particularly the smaller recently formed life companies.

Only one major obstacle lies in the way of rapid expansion of long-term business. The recent insurance regulations brought in by the UK authorities, based on EC requirements, impose stringent solvency margins on long-term reinsurance business. Expansion has to be backed by adequate capital, and this long-term insurance business expansion will require more capital resources to be put into Victory.

Legal and General has injected £45m since it acquired the company, and can only be expected to put more capital in if it will get a satisfactory return. Long-term reinsurance business does offer this prospect. But, as John Butcher points out, it also means that the company has to proceed with caution in its development.

Eric Short

Role of the banks

LC market to get new entrants

AT A TIME when banks are pouring creative energy into finding alternative ways of servicing the reinsurance industry, it is ironic to find that competition in the letter of credit market is about to hot up.

Letters of credit, which allow reinsurers in the US to meet regulatory requirements for reserves against future claims on reinsurance policies ceded outside the US, have traditionally been the staple product provided by banks.

But, following a number of business failures in the reinsurance industry earlier this decade, many US banks retrenched their LC business.

Yet there could now be new entrants into the business as last June the National Association of Insurance Commissioners, which represents state insurance departments in the US, approved a change allowing ceding companies to receive LCs from foreign banks.

Depending on how many individual states take up the change, this could feasibly open up a wealth of opportunities for non-US banks to get in on the act. However, bankers' views on the impact this will have on the US market vary widely.

Some suggest that it will be hard for new entrants to break into the relationships already established by the remaining key providers of LCs, notably Citibank.

"You need a bank with a commitment to service the industry as a whole, and there aren't many around like that," Mr Andrew Williams of Citibank says.

But Barclays Bank, which has been one of the main driving forces over the last few years in persuading the NAIC to allow non-US banks into the market, disagrees. "We see the admitting of a UK bank as creating necessary capacity in the US," says Mr Terry Hibben, of Barclays.

The American banks may also find that the proposed convergence between British and US regulatory requirements for capital adequacy will give them further grounds for cutting back their LC business. It will certainly for the first time force US banks to count certain letters of credit as liabilities on their balance sheets. UK banks already have to do so.

The quest for alternatives to the LC, in the case of the US banks, has led to vigorous promotion of trust funds, which contain securities pledged by a reinsurer to cover his liabilities, but do not have to appear on the bank's balance sheet.

The standard trust fund is assigned to a ceding company, whose written approval is then required for any movement of

the securities held in the fund. This is a rather cumbersome mechanism, however, and for this reason, bankers have over the last few years been working on refining the product.

Bankers Trust has been working on a so-called "multi-beneficiary fund", designed to make administration much simpler for the reinsurer. The multi-beneficiary fund, enables the reinsurer, using only one fund, to issue certificates in favour of all the US companies with which it has done business.

Bankers Trust has been seeking approval from authorities in the US for this since December 1985, but says it has now been approved by several major states.

Apart from letters of credit and trust funds, bankers have been working vigorously to develop "value-added" services for reinsurance clients. As Mr Andrew Williams, of Citibank, puts it: "The banks have been seeing the reinsurers becoming far more sophisticated in their use of services."

Citibank has been at the forefront of this trend, with a com-

puterised system in place that provides such services as information about balances outstanding within a letter of credit. Barclays is planning to emulate this once it is allowed to provide letters of credit to ceding companies in the US.

In addition, banks have been selling a range of products for handling foreign exchange risk - which matters to an industry like reinsurance which is dominated by cross-border flows of funds.

Mr Andrew Williams says that interest in such products as currency options and swaps has been picking up steadily over the last couple of years, as reinsurers have faced extreme volatility in the foreign exchange markets.

For banks with investment banking operations, there are additionally opportunities to provide services enabling the reinsurance companies to tailor their assets to their liabilities more effectively.

For instance, Midland Montagu, the securities arm of Midland Bank, which has a growing presence in the LC market, currently provides zero coupon deposits designed to match exactly certain reinsurers' loss liabilities.

Meanwhile, other banks are looking to provide corporate finance services. Bankers Trust in particular has been concentrating on this, seeing considerable scope for mergers and acquisitions advice to the reinsurance sector.

Clare Pearson

Legal issues

Rights of innocent insured

THIS LEGAL year saw the Court of Appeal decision in the Phoenix case, which was to clarify the rights of the innocent insured who contracts with an unauthorised insurer.

The light shed was dim, being oblique only, and to the reinsurance market in general it did not give the hoped-for answer.

The question was whether an innocent insured can claim under a primary contract entered into with an unauthorised insurer who, because of the lack of authorisation, cannot claim against his reinsurer.

In 1983, in the Bedford case, Mr Justice Parker held that the innocent insured could not claim. In 1984, in the Stewart case, Mr Justice Leggatt held that he could. In 1985, in the Phoenix case, Mr Justice Hobhouse held that he could, but for different reasons.

Three differing judgments at High Court level is hardly desirable in a precedent system, and it was hoped that the appeal in Phoenix would provide a solution - in favour of the innocent insured. A decision on Stewart lines would have gone down well in the market.

The Court of Appeal, however, decided that, because of transitional provisions in the relevant secondary legislation, the insurer, Phoenix, was in fact authorised to carry on the business, so that the question of illegality did not really arise.

Nevertheless, Lord Justice Kerr dealt fully with the point in so firm an obiter dictum that lower courts will find it virtually impossible not to be persuaded. The disappointing conclusion was that the innocent insured, for whose protection the insurance legislation was passed, is without protection in this particular situation.

The root of the problem lies in the wording of the Insurance Companies Act 1974, which provides that no one is to carry on "insurance business" unless authorised, and defines that business as "the business of effecting and carrying out contracts

of insurance" in the appropriate class.

Mr Justice Parker said that meant that a primary contract by an unauthorised insurer was prohibited and was therefore illegal and void. Mr Justice Leggatt said only the "business" was prohibited, not the actual contract. Mr Justice Hobhouse said the contract was prohibited as against the insurer only, not the insured, and so was illegal and void only to the extent that the insurer could not claim reinsurance.

Lord Justice Kerr, agreeing with the Bedford reasoning, said the contract was prohibited as against the insurer, and as the insured could not be expected to aid and abet him in his illegality, the entire contract was void.

The House of Lords will hear the appeal on February 22 next year. If it finds that Phoenix was authorised, any ruling on illegality will again be oblique - though no court would defy its persuasive force.

Lord Justice Kerr reached his decision reluctantly, describing it as a "most unfortunate state of affairs". The market shares his optimism that "reputable reinsurers, solicitors of their good name and reputation, will no doubt hesitate long before relying on this defence".

Other cases this year have favoured brokers and agents, who sometimes feel that legally they have a rotten deal.

In Transcontinental Underwriting Agency v Grand Union Insurance Co, Mr Justice Hirst held that an agent or broker who signs a retrocession agreement on behalf of his principal is entitled to sue on it personally, and to hold the proceeds as fiduciary, unless the agreement shows a contrary intention.

contractual authority to "carry on the business of an underwriter" on behalf of a syndicate includes all aspects of the business, and that there is no reason why a Rico action should not be part of that business.

The Rico Act was a reaction to organised crime and drug trafficking. It was originally intended to provide civil remedies against organised crime only, but is being increasingly applied to civil cases where a pattern of fraud can be established. Plaintiffs like it because it carries the advantages of triple damages, recovery of costs (unusual in the US), wide discovery, and federal jurisdiction.

According to solicitor Steven Blair, of Alsop Stevens, who is directly involved in reinsurance and in organising in-house seminars covering UK, US and European markets, there has been a rash of Rico claims in the US in the last 12 to 18 months, some involving UK as well as US companies.

An increase in loss ratios (difference between premium and claims) in the US has, he says, led to an increase in disputed claims. A UK trend which is spreading to the US is the use of consultant investigators, who are called in to audit a reinsurer's books when the paying reinsurer considers the loss ratio is too high, or that something else might be wrong. This can be a genuine search - or it can be a tactic resulting in delayed payment or discharge of liability.

The US preference in reinsurance cases has traditionally been for arbitration, which is quick, quiet and confidential. With the increase in the number of disputes, and the expanding use of the Rico procedure, this preference is now giving way to litigation.

In Europe, the tendency remains for disputes to be heard in the UK, whether by arbitration or litigation. Most European companies are licensed in the UK or employ underwriters in the UK, and would anyway

arbitrate or litigate there if the reinsurance concerns the London market.

The Commercial Court judges as the most experienced adjudicators in the world of reinsurance disputes, with a reputation for absolute impartiality. Until recently also, the speed with which cases came up for hearing in the Commercial Court reinforced the choice.

This speed is diminishing. Mary Smith, assistant clerk to the Commercial Court, says that, whereas hearings used to start within three to six months of close of pleadings, they now take three years or more, depending on the length of the hearing. The Commercial Court's success in providing speedy justice has led to an increase in case load, which in turn is now defeating one of its chief objects, speed.

Steven Blair says there are not only too many cases and not enough judges - there is not enough money. At present it costs £200 or £300 to get a trial going. This includes issue of the writ, use of court facilities and judges' time for perhaps days or weeks on end. An arbitration is financed by the parties, at perhaps £500 or more a day plus accommodation for the arbitrator, and maybe £2,000 a week for use of a court.

Money for litigation could come from the practitioner, says Steven Blair. He suggests that a fair amount should be charged, perhaps under a system similar to that used in some arbitrations, where the claimant is expected to pay a percentage of the claim plus expenses.

This might also have the effect of encouraging settlement rather than dispute, and so decrease the court's workload.

Rachel Davies
Bedford case - FT, November 16 1983; Stewart case - FT, May 3 1984; Phoenix case (Hobhouse J) - FT, August 20 1985; Phoenix case (CA) [1986] 2 FTLR 665; Transcontinental case - [1987] 2 FTLR 35.



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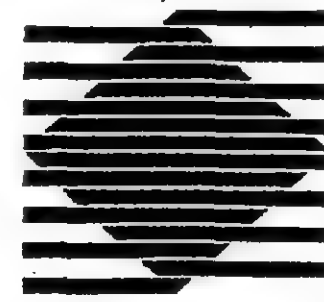
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REINSURANCE 5

Environmental Liability

A court fight on clean-up costs

OCTOBER 12 this year may prove to be a fateful date in the history of the reinsurance industry.

A California Superior Court judge in San Bruno, just south of San Francisco, will begin presiding over the trial of the Rocky Mountain case - the biggest legal battle so far over the potential liability of insurers for the cost of cleaning up America's old hazardous waste dumping sites.

In the case, Shell Oil, the Texas-based US arm of the Royal Dutch Shell group, is suing its liability insurers - which include several hundred Lloyd's syndicates and London market insurance companies - for \$1.8bn towards the cost of cleaning up the Rocky Mountain Arsenal site, near Denver, Colorado.

Shell used the Arsenal until the 1970s as a dumping ground for by-products from pesticide production. The insurers have refused to pay the \$1.8bn, on the grounds, they say, that environmental clean-up costs were never covered in the comprehensive general liability (CGL) policies which Shell bought between 1948 and 1982. Already, the Californian trial judge has estimated that hearings in the case could last a year.

According to Mr Phillip Matthews, of Hancock, Rother and Bunshott, one of the law firms acting for insurers in the case, it is the biggest of perhaps 30 or 40 similar suits - though no one is sure of the exact number - now at various stages of progress through American civil courts.

The most significant new filing recently has been the huge action launched in New Jersey, in May, by Westinghouse Electric against more than 140 of its post-1948 property and liability insurers.

For both US and European reinsurers, the Shell case's broad significance lies in the indications it may give of whether they will eventually have to pay much of the multi-billion dollar bill for the environmental damage caused by decades of toxic waste dumping by US industrial companies.

The issue has emerged as one of vital concern to the insurance industry since 1980, when the US passed the Comprehensive Environmental Response, Compensation and Liability Act - better known as the 'Superfund' programme.

Administered by the federal Environmental Protection Agency (EPA), the Superfund law enables regulators to pursue US corporations for the costs of compulsory schemes to clean up waste sites like Rocky Mountain Arsenal.

One measure of the potential sums involved comes from Mr Bob Mason, chief of the EPA's guidance section in Washington DC. 'The figures vary depending on whom you listen to - but in 1985 we estimated that clean-up costs would average \$7.2m per

site. Now that would be \$8m,' he says. 'He thinks there will ultimately be about 2,000 sites on the EPA's National Priority List - giving a total cost of about \$16bn. Some argue, however, that the EPA has tended to be top conservative in its projections - and in March 1986 the US congressional Office of Technology Assessment put the ultimate Superfund clean-up cost at \$100bn.'

So far, the signs are that insurance companies in the US are gaining ground in their legal fight to deny that they should pay any of it. In two recent cases - *Maryland Casualty v Armo*, and *Mraz v Canadian Universal Insurance* - federal appellate judges in Maryland and Virginia found in favour of the insurers, which had argued that hazardous waste clean-up costs could not be recovered under CGL policies.

Lawyers for insurance companies are also taking heart from signs that courts are not automatically applying to hazardous waste the legal decisions which, since the early 1980s, have established the liability of insurers to pay for billions of dollars of claims filed by asbestosis victims.

However, policyholders' lawyers are already trying to use as a precedent in hazardous waste litigation Judge Ira Brown's ruling on May 29 in San Francisco, which substantially broadened the definition of insurers' liability in asbestos cases.

In turn, the diversity of the American civil justice system - fragmented among 50 state jurisdictions, plus about 100 federal court districts - means that there have so far been a number of conflicting rulings on the hazardous waste issue.

Among US insurance lawyers, the broad consensus is that case law on hazardous waste is still at an embryonic stage - and that it could be the 1990s before serious legal precedents have been established.

This is partly because the sheer complexity of some of the hazardous waste cases means that they could drag on for years, leaving insurers at best with huge legal defence costs. Mr Matthews believes that, judging by the Shell case - where the original law-suit was filed as far back as autumn 1983, and 35 law firms are now involved - the Westinghouse action might take more than a decade to come to trial.

To date, insurers say they have paid out only small sums for Superfund clean-up claims. But cases like Rocky Mountain Arsenal and Westinghouse have left insurers and reinsurers with nagging doubts about the adequacy of their loss reserves - and bafflement over how to compute the size of their ultimate liability and their legal bills.

Nick Barker

Profile: Munich Re

Discreet giant turns corner

ITS CHATEAU-LIKE headquarters on Munich's Koenigsplatz almost say it all. Muenchener Rueckversicherung, the Munich Re is an institution. Rock-solid on the outside, tastefully avant-garde within, the headquarters of the world's largest re-insurance company, founded in 1880, exudes status and seemingly cool detachment.

The group's chief executive, Mr Horst Jannott, aged 59, contributes to this dynastic air. He is only the Munich Re's sixth top man since its foundation, and is likely to remain in charge until he is 65. Curiously self-effacing, considering his status, Mr Jannott, who joined in 1954 and has been in the driver's seat since 1969, is an eminence grise who has seen the Munich Re's gross premium income rise, from DM300m a year when he first started as an employee, to some DM12bn today.

Many of the Munich Re's other figures speak in superlatives. Though it has to bow to Cologne for the distinction of being the first in the business in Germany, the Munich Re dwarfs most competitors in virtually every other way. Moreover, either directly or through affiliates, it holds significant stakes in many German direct insurers.

Best known is its 25 per cent reciprocal stake in Allianz, Europe's biggest insurer and now the seventh largest insurance company in the world. Among

the Munich Re's other significant holdings is a 44.5 per cent stake in Allianz Life, 50 per cent in Hermes, Germany's leading credit insurer, 47.2 per cent in Berlin Life, 10 per cent in Albingia, and 5 per cent in the Aachener und Muenchener. The group also has a small reciprocal stake in Commercial Union of the UK.

In all, the Munich Re accounts for about 7 per cent of aggregate German direct premiums. But it also has strategic stakes in non-insurance groups, though these are usually in related fields like fund management and property. However, it even owns 25 per cent of in a Hamburg brewery.

Apart from the known holdings, the Munich Re's variety of mysterious undisclosed holdings in other groups, such as banks, are almost a legend in themselves. All that is known for sure is that its investments are grossly undervalued. According to the US broker Fox-Pitt, Kelton, the company's adjusted book value is at least 25 times the disclosed value. For example, we believe that Munich Re carries its 25 per cent holding in Allianz (worth DM55bn) at an effective value of nil, it says.

Other brokers are almost as farsighted. Mr Joerg Bohn, of Frankfurt-based CRM, reckons that the total book value of Munich Re's stakes in various companies stands at DM2.8bn,

whereas the current market value is over DM20bn.

However, difficulties in the re-insurance market in recent years mean the Munich Re's profitability record has not always lived up to the mammoth reputation of its investment pool. Losses in US liability re-insurance badly hit earnings throughout the industry. And when interest rates started to fall internationally, investment earnings provided a thinner cushion than in the past. The group had to set aside DM290m in extra provisions in the 1985-6 business year, of which some DM250m was for US liabilities.

The Munich Re thinks it has now turned the corner. Inexperienced companies which came into the re-insurance business in the late 1970s, partly on account of the high interest rates at the time which guaranteed good investment earnings, left almost as quickly following the US liability problems. There is still overcapacity, says the Munich Re, but matters are by no means as bad as they were.

Losses in the US are still weighing down its results, however, and extra provisions will again be required for US business this year, though probably not on the same scale as before, according to Mr Michael Kuttner, of Fox-Pitt, Kelton. But the business has become 'notably better' elsewhere, and was even showing a profit in places, according to the company in its

letter to shareholders at the end of June.

The upturn overall is still not strong enough to cancel out the US problems, and the group says it expects another technical loss this year of about same size as last year's DM482m, though some analysts are less pessimistic. Meanwhile, premium income, up 1.5 per cent to DM12bn, raised few eyebrows.

The Munich Re's dividend forecast did cause a stir, however. It has paid an unchanged DM3 a share for the past five years. Overall results for 1986 would again be 'satisfactory', it said, coyly adding that earnings would be adequate to pay 'at least' an unchanged dividend.

Such aides are not made lightly by German companies, and the 'at least' caused a flurry. Behind closed doors, the Munich Re suggested that this year's profits could in fact be a bit better than its DM56.5m after tax in 1986.

Investment earnings this year are expected to match last year's level, and the group strongly rejects the criticism often levelled at Germany's direct insurers that investment policy is unenterprising and investment departments understaffed, with investment still tending to take a poor second place to underwriting.

Re-insurance companies in Germany do not suffer from the same stiff legal constraints on their investment policy as di-



Horst Jannott: sixth top man since Munich Re's foundation

rect insurers, it says. Nor is its investment department, with about 75 professionals, understaffed; and managers are free to invest in whatever way they see fit, it says.

The investment people are hardly the only specialists on board. Among the 1,600 staff at the Munich Re's headquarters are almost as many engineers. They analyse technical risks both for the company itself, and occasionally for smaller direct

insurers abroad which turn to it for advice. There are even six doctors on the payroll. But they have more important things to do than staff health care. They are employed to weigh up the risks of specialist underwritings such as 'like sectors' noses or the possible effect of rare diseases. Hurricanes, hailstorms, earthquakes and rare risks - such is the lot of the world's largest re-insurer.

Haig Simonian



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REINSURANCE 6

European reinsurers

Strong links with clients

AMONG THE West German and Swiss reinsurance sectors are the world's largest professional reinsurance companies. Prospects are good, and there are also signs that these companies are now aiming to diversify into other international markets. Aided by their expertise and strong asset backing, the prominence of these companies could therefore increase.

West Germany houses Munich Re, the world's largest reinsurer. The other major reinsurers present within this market are Gerling Konzern, which ranks 10th in the world; Cologne Re, ranking 13th; and Frankona, which ranks 14th in the world. Similarly, Switzerland is the home of Swiss Re, the world's second largest reinsurer.

The European reinsurers have particularly long histories. Cologne Re, founded in 1846, claims to be the oldest reinsurance company in the world. Swiss Re was founded in 1863, and Munich Re in 1930.

One reason for the prominence of the European reinsurance market, especially in West Germany, is the strong relationship between reinsurers and their client companies. A striking example of this is the 25 per cent cross holding between the two market giants, Munich Re and Allianz. These intertwining relationships make it extremely difficult for new entrants to establish any significant market position in West Germany.

A major feature of the German reinsurance market is that the amounts reinsured are sig-

nificantly larger than in other major markets. For example 64 per cent of fire business and 33 per cent of liability business is reinsured.

West Germany and Switzerland are both mature insurance markets, non-life insurance accounting for 3.5 per cent and 3.3 per cent of GNP respectively. The comparable statistic is somewhat lower for the UK at 2.9 per cent. This, and the already heavy use of reinsurance, has resulted in there being little scope for further domestic expansion, and the reinsurers are now looking to increase their international exposure.

This search for a more international business distribution is becoming increasingly apparent. Swiss Re is considering acquisitions in the direct insurance field in territories such as the US, the UK, Spain and Italy. Cologne Re's chairman announced that the company sought to develop its "international face" in the coming business year. The international visibility of these companies, including both Frankona and Cologne, has been boosted in recent years through major share placings. Munich Re already derives 50 per cent of total premium income from its overseas operations, but growth in its US subsidiary has recently been particularly rapid.

But the search for further international business is accompanied by a cautious underwriting approach in high-

risk areas such as US liability. For example, the chairman of Swiss Re, Dr Walter Diehl, announced last year that Swiss Re would be accepting very little hard liability business in the US. Exposure to large US liability claims has resulted in heavy reserve strengthening. In 1985, for example, Munich increased its transfers to "exceptional reserves" by over seven times to DM 290m.

The time is indeed ripe for international expansion. The shortage of capacity in world reinsurance markets, and renewed emphasis on expertise and security, provide the European reinsurers with an excellent opportunity. The strength of the Swiss franc and the Deutsche Mark against the US dollar and related currencies makes foreign acquisitions particularly attractive. However, it remains to be seen whether European reinsurers will choose to expand organically or through acquisition.

An added advantage is that a close look at the reinsurers' assets shows them to be particularly secure companies. For instance, the book value of German reinsurers' assets is noticeably understated as a result of very conservative accounting techniques. The reinsurers use the "Strenge Niederwertprinzip", the historic low cost basis, where assets are written down as their market value falls and are never written up when their market values rise. Effectively, therefore, assets are given at their lowest market value since acquisition.

For the older reinsurers, whose assets have been held for many years, the understatement is often dramatic. This is borne out by the book value given for Munich's numerous participations. Munich's two substantial participations in the Allianz group (25 per cent of Allianz Holding and 48 per cent of Allianz Lebens) are valued by the market (according to the share prices of these companies) at approximately DM 10bn. Astonishingly, the book value given (which includes other large insurance stakes for all of Munich's participations) is only DM 2.4bn.

Similarly, we estimate the market value of securities and shares held by, for instance, Munich and Cologne to be approximately three times book value. As a result of these conservative accounting techniques, solvency margins appear to be very low by international standards.

For example, Munich's solvency margin (the ratio of "published" shareholders funds to net premium income) is 14 per cent. However, using our market estimate of shareholders funds increases this margin to an astounding 270 per cent. It is also worth noting that this estimate may still be cautious, as it is widely believed that the reinsurers' underwriting liabilities are conservatively stated.

Chris Fountain and
Juliet Shaughnessy
Wood Mackenzie

Technology

Backroom big bang looms

IN THE complex history of computers and reinsurance, this autumn may turn out to be a season of decisive change. In the UK at least, in the words of Mr Murray Lawrie, deputy chairman of Lloyd's, a "back-room big bang" is about to hit London's fragmented, anarchic insurance and reinsurance community.

Its basic blue-print appeared this summer. After six years of stumbling towards a common strategy, Lloyd's, its brokers and 240 London-based insurance companies jointly unveiled plans for an electronic network capable of instant exchange of huge volumes of information.

Its aim is to enable the instant exchange of down telephone lines, of complex data about risks and claims which, at present, has to be ferried around the London market by brokers clutching bulging files.

Given the possibility of a link into the UK's banking system, it could provide for electronic transfer of funds. It also has the potential - well before 1990 - to link London directly to clients in overseas areas.

The meeting of minds which led to this summer's announcement was a remarkable achievement - especially since, just 12 months before, the Council of Lloyd's had rejected the Business Processing Strategy (BPS). At that time, for instance, all-electronic market, the BPS evoked hostility from underwriters worried that it would destroy the old face-to-face patterns of trading in the Lloyd's underwriting room.

But the London market network's significance is far from being just a matter of technology. To quote Mr Dieter Losse, chairman of the London brokers' reinsurance committee, it represents "an essential ingredient of the future."

That is partly because - in the process of building a network - the London market may have to agree new standards of conduct for its basic trading practices.

Possibly in October, for instance, non-marine brokers and underwriters at Lloyd's and in the company market will complete their long "terms of trade" pilot scheme, after an extension agreed at the end of July. Begun on January 1, the scheme was aimed partly at standardising and speeding up the settlement of premiums and claims payments.

That is a vexed issue. What is at stake is the question of which side of the market - the broker, or the underwriter - controls a significant chunk of the investment income that can be earned from the London market's huge flows of cash. But that is just the kind of issue that will have to be resolved if the market wants to use the network to the full.

From a purely technical point of view, the new network will cause little excitement in the computer world. Operated by IBM, via a centre at Warwick, it will use the kind of facilities that, for instance, banks and building societies already employ to connect networks of automated teller machines.

It matters for three reasons - all of which transcend by a long way the network's purely technological significance.

First, the network may produce a 10 per cent saving in administrative costs. Second, it could sharpen London's competitive edge by improving service to policyholders, via the speeding up of claims-handling in particular. Last, it represents the most successful attempt so far to develop market-wide information technology (IT) solutions to business problems.

In fact, the history of IT in the London market goes back 35 years, and has always been a matter of trying to balance cen-

tralised decision-making in the common good, against the need to preserve individual enterprise.

The Lloyd's Policy Signing Office, which provides central administrative back-up for syndicates - was for instance one of the UK's earliest pioneers of punch-card based data processing. Since the early 1980s, systems companies like CAP and the Sherwood group whose "Sabre" box-recording system is used by about 50 per cent of Lloyd's syndicates - have been active in the market. Also, Wang, the computer hardware and software company, has made heavy investments in selling personal computers, as word processors to brokers and underwriters.

But the trend hitherto has been for chaotic, uneven development - with some of the market's Lloyd's agencies, brokers and companies moving far more rapidly than others, and some with virtually no modern IT at all.

This high degree of uneven development has largely arisen because of the extreme fragmentation of the market into 240 Lloyd's underwriting agents, nearly 400 Lloyd's syndicates, 260 brokers and 230 marine, non-marine and aviation insurance companies.

On the one hand, this has left scope for a high degree of individual enterprise. For instance, syndicates managed by four Lloyd's underwriting agencies - D P Mann, Taylor Clayton, the Merrett Group, and Claremount - are either now using, or have signed up to use, the "Box-off" system devised by D P Mann and CAP Financial.

Developed since February 1985, at a cost of about £1m, his system provides an interface to the London market network. The D P Mann syndicate - number 435 - was one of the four pilot syndicates which took part in IBM network trials preceding this May's network announcement.

Second, like Sherwood's Sabre, it runs the syndicate's day-to-day clerical functions. Third, it acts as an underwriting tool, particularly in the design of the underwriter's reinsurance programme. The underwriter can build into it, for instance, a series of different mathematical models for analysing how claims will develop out of the insurance business he has written.

Yet not every user's experience with IT in the London market has been as happy as this. Lloyd's, for instance, is littered with war stories of underwriting agents that have spent

heavily on inappropriate systems and found that they consumed more money and management time than they were intended to save.

The arrival of the London market network now poses a two-fold challenge. First - as Mr Losse suggests - the market can use the process of network implementation as a means for reaching collective decisions

about how to standardise basic trading practices, such as the terms of trade, with the ultimate goal of improving the standard of service to clients. Second, it will be an opportunity to educate underwriters and brokers to be the masters - rather than the slaves - of new technology.

Nick Barker

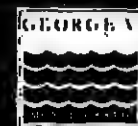
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REINSURANCE 7

Actuarial issues

Professional guidelines reflect increasing role

IN THE past few years there has been a sudden upward surge in the numbers of actuaries involved in London market reinsurance, albeit from a very small base.

Five years ago, fewer than 10 actuaries devoted the greater part of their time to non-life reinsurance work. Today, that figure has quadrupled to approximately 40. Many are consultants who, therefore, act for several companies and syndicates. The total figure, however, is not reflected in the 35-strong membership of the London Market Actuaries, an informal but select association.

The 35 figure understates the numbers, partly because not all actuaries choose to join, and partly because some are restricted by an effective quota on the number of members from any one organisation. This mainly affects the larger firms of consultants.

Most actuaries working in non-life insurance are governed by the Institute of Actuaries, the principal actuarial professional body in the UK. The Institute sets non-life insurance—including topics on reinsurance—as a specialist subject in their examination syllabus. The other actuarial body in this country, the Faculty of Actuaries, does not examine in non-life insurance.

In response to the substantial growth in actuarial activity in this field, the Institute of Actuaries is currently issuing its first guidance note on general insurance (GN12), which will also cover actuarial involvement in reinsurance. This guidance note is being issued jointly with the Faculty of Actuaries: evidence that progress is being made at the professional level to recognise the increasing role of actuaries in reinsurance.

Why has this increase in demand taken place so suddenly? In reality the need for actuaries has not changed, but the market's awareness of the role of actuaries has. Running a successful reinsurance operation requires input from a variety of skills. The days when the underwriter did everything are long gone. Today, unlike his life counterpart who has a more dominant role, the reinsurance actuary has to work alongside other professionals, such as underwriters or claims personnel.

His role is crucial. As a starting point, he must have a full understanding of the mechanics of the business that he is studying. It simply is not possible for the non-life actuary just to apply actuarial techniques blindly. Long-term reinsurance is an area where a little knowledge can be very dangerous,

and applies as much to the actuary as to the underwriter.

It is important that actuaries have experience in the field before taking any major decisions. They must ensure that they keep right up-to-date regarding any changes in market practice. For example, practising actuaries must be aware of how the introduction of claim-made forms will substantially alter development patterns. It is up to the actuary to keep himself informed of such changes: no one else will.

Clearly, the number of actuaries who do understand non-life reinsurance is limited, and is one of the reasons why the demand for actuaries in the reinsurance field is likely to outstrip supply for the next few years. It will take some years to increase the numbers, but in the meantime there is no sign that the demand is likely to slacken off. Indeed, all the indications are that it is increasing. The problem is further exacerbated by the general shortage of actuaries in all fields, and by increased competition for maths graduates from other professions, such as accountancy.

Much of the early work of London market actuaries was reinsurance. This tends to be the area that causes concern first. In the longer term, however, the actuary's role in rating is recognised as being more important. After

all, the reserves affect only the balance-sheet recognition of results, whereas correct rating actually affects future results.

Nevertheless, accurate reserves are of fundamental importance for rating, especially in the longer tail lines. The reserves need to be as accurate as possible to avoid over- or underpricing. In this respect, non-life is quite different from life insurance, where the role of reserves is to manage the release of surplus. In non-life insurance, reserves are a fundamental measure of what is actually happening.

The non-life actuary also analyses distributions of claims by layer, which is of fundamental importance for the rating of excess of loss insurance. Large risks, where the data are sufficiently comprehensive to have some credibility (even if not 100 per cent) is another expanding area. Most medical malpractice reinsurance business in London now has the benefit of an actuarial report, at least on the primary business. Another area requiring actuarial expertise is product and policy design. This is an adjunct to rating but includes analysis of methods of sharing the risk between the insurer and the insured, including retrospective rating techniques.

There is also an actuarial

involvement in planning, which includes analysis of capital requirements. Solvency margins, as conventionally calculated, do not usually reflect the real risk undertaken by a reinsurance company and more sophisticated analytical techniques are therefore necessary.

One of the actuary's major problems is the lack of available data. They have very little in the public domain to go on by way of publishing statistics. The Reinsurance Association of America (RAA) publishes run-off statistics for US reinsurance companies. It is essential reading for all actuaries in the US casualty market, but requires some skill in application.

For lines other than US Casualty, the Reinsurance Offices Association (ROA) is looking at the possibility of producing statistics, but it will probably be some years before this sees the light of day. The

data are likely to be of more use for reserving rather than rating, because of the broad base definition. Consequently, in most cases, the actuary is required to try to develop his own data.

This normally takes some time to build up. Apart from a few specialist areas, many companies or syndicates would not have a sufficiently broad base to allow them to rely on their own data. Hence this represents an area where a consultant with broader experience can be of great assistance. The consultant actuary can often more than offset the disadvantages of not knowing the account as intimately as the in-house actuary.

On top of all his technical expertise, the reinsurance actuary needs another skill. Because he still needs to interrelate with other skills to a certain extent, it is important that

he be capable of expressing himself clearly. The underwriter or claims official takes it for granted that the actuary knows the tools of his trade. What is paramount for them, is that he is able to state his conclusions in insurance terms.

Most actuarial investigations in the reinsurance area highlight areas of uncertainty. These need to be discussed openly with claims officials and/or underwriters, to obtain all the necessary input to make the correct decisions. The underwriter wants to know what the answer means in terms of underwriting criteria, not complicated mathematical formulae. Hence the need for effective communication skills all round.

What has an actuary to offer that a statistician or similar person has not? The combination of probability, statistics, finance and investment is an important part of an actuary's training.

Statisticians often become too heavily involved in the figures at the expense of other issues. The actuary will be much less inclined to venture into fields in which he does not have relevant experience on the basis of an analysis of the numbers alone.

It is also likely that some form of legal/formal actuarial certification will be required for the reserves of reinsurance companies in the foreseeable future. This is already a fact in many territories, including North America, and countries such as Italy and Finland. Indeed, given that the current returns are totally inadequate to analyse the financial situation of most reinsurance companies, legal certification is probably the only way that the Department of Trade and Industry can hope to control the future solvency of the reinsurance market.

John Ryan

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REINSURANCE 8

Life reinsurance

Statistics help to identify the risk

THE DOMINATING factor over the past 12 months in the UK life reinsurance market has been the growing impact of Aids on life insurance underwriting.

The speed with which Aids (Acquired Immune Deficiency Syndrome) has spread in the US, and the impact of Aids death claims on US life companies, has highlighted the need for urgent underwriting measures to identify potential victims, without involving life companies and life reinsurers in high expenses and complicated and lengthy administration.

The reinsurance companies operating in the UK have taken the lead in developing what they consider to be necessary underwriting procedures, giving more urgency to the situation than has the industry itself through the Association of British Insurers.

An essential element in any underwriting procedure is the knowledge and statistics to understand and quantify the nature of the risk. Until recently, the reinsurance companies undertook to collate the statistics relating to Aids, thereby combining their collective experience. In addition, they acted as a research library, collecting all relevant information on Aids worldwide. In this respect, the reinsurers, being part of multinational groups, had the necessary information networks to monitor the field.

Now the collation of statistics has been taken over by the Association of British Insurers, the main trade association of insurance companies. Both the ABI and the Institute of Actuaries have set up working parties to study aspects of Aids. Actuaries and underwriters working in reinsurance companies are well represented on these committees.

The reinsurers are now able to give more consideration to the necessary underwriting aspects. Here the reinsurance companies are setting the lead for the direct writing life companies in savings business. The reinsurance companies, on the other hand, are solely involved

in life risk business.

The prime requirement in life underwriting is to identify any high-risk group, from questions set out on the proposal form, and then to seek further information through a medical examination or from a report from the proposer's own doctor. This enables the bulk of proposals to be dealt with simply and quickly, without the need for a medical, thus keeping down costs and therefore premiums. The alternative course, of sending everyone for medical examination, would not only send prices soaring but would result in administration chaos on a par with that experienced by stockbrokers.

So it is necessary to word the relevant questions on the proposal in such a way that the replies enable an underwriter to proceed further. With questions relating to a person's heart condition, this is straightforward. It is far trickier designing the correct questions to identify potential Aids victims. The reinsurers have been instrumental in designing the form of words recommended by the ABI, and which is now being used by most life companies.

This asks whether the proposer has been counselled or medically advised about Aids or any sexually transmitted disease, and whether the proposer has had an Aids blood test.

The reinsurers, however, feel that this does not go far enough - even though the British Medical Association and the medical profession feel that it goes too far, in that it could discourage people from seeking medical help.

Since Aids is a sexually-transmitted disease, underwriters need to know details of the proposer's lifestyle - questions that life companies have not asked directly in the past. Where it is relevant, life companies have relied on this being revealed at a medical examination or on the medical report. Now, doctors are refusing to answer such questions, so life companies are being forced to ask the proposed life direct.

The reinsurance companies have designed a supplementary questionnaire to be filled in by certain categories of person, mainly single men, under a confidential cover, followed up where necessary by a medical

examination. The reinsurers have also persuaded the life companies to seek automatic blood tests on proposers where the cover is at least £250,000.

To date, very few life companies have adopted this practice universally. But reinsurance companies are asking life companies to get this information on reinsurance cases, especially on one-off facultative business where the reinsurer is able to lay down conditions.

In dealing with Aids, the reinsurers have shown a remarkable degree of uniformity, whereas, in all other aspects competition for reinsurance, business is cut-throat. This is resulting in keen pricing for business, which is favourable for the direct life companies.

Their contracts are still sold very much on their investment performance, with little attention being paid by the investor to the cost of providing life cover. When it comes to reinsurance the life risk, the direct companies can shop around for the cheapest prices. However, reinsurers are now tightening up on some of the terms under which they offer reinsurance, particularly on giving guarantees of future mortality rates.

Life companies on certain contracts, especially universal life type plans, reserve the right to review the mortality charge at periodic intervals. Reinsurance companies are now doing this same.

However, marketing conditions are currently buoyant for the reinsurers. Life companies are enjoying record levels of sales; and, among the growth sectors, sales of protection contracts figure prominently. Reinsurers get much of their business from these types of contracts.

Nevertheless, since the only ways a reinsurer can increase business are either to take it from competitors, or to encourage client life companies to increase their business, the reinsurers are still giving considerable backing services to clients. This takes the form of marketing advice, product design and general financing help, particularly for the smaller companies.

Nevertheless, the spectre of Aids is going to hang over the life reinsurance industry for at least the next five years.

Eric Short

Market standards

Trading with a 'straight bat'

THIS AUTUMN, in the weeks between the Monte Carlo rendez-vous and the start of the 1988 renewal season, a small team of London company underwriters will be starting work on what could be a long, arduous task - the development of 'market standards' to govern the trading practices of London's reinsurance community.

Launched by the Reinsurance Offices Association (ROA) this spring, the project is long overdue, according to Mr Brian Prevost, the ROA's deputy chairman.

"In the insurance industry - and particularly the reinsurance part - it is essential that everybody plays with a straight bat," he says.

The problem, aggravated perhaps by the informal, face-to-face negotiating style of the London market, is the lack of clear guidelines about the terms on which brokers and reinsurers should do business.

True, there is no shortage of legal precedents defining their duties and responsibilities to each other, and their clients. But what Mr Prevost wants now is a code of practice which can help forestall the tortuous disputes which he says can emerge when parties to a reinsurance deal disagree about issues like the timing of premium or claims

payments, about how to introduce new clauses to old contracts.

"We are all in the same business of striving to serve our clients," says Mr Prevost who knows both sides of the industry. He was a Sedgwick Forbes broker for 27 years, but is now chief executive of Swiss Reinsurance (UK). "Our mutual dilemma is that we have never committed ourselves to try to reach a mutual understanding on how we want to handle our business together."

At present, he argues, it is impossible to judge whether behaviour by brokers or underwriters falls short of what it should be - because there are no norms establishing best practice.

The ROA market standards project "will not be a short-term thing," Mr Prevost says. The first step, he says, is for the ROA's working party - which was created this spring and summer - to begin "trying to get something basic down on paper." Its terms of reference have now been agreed and are as follows:

● To study and report on the handling of reinsurance and retrocession business transacted in the London market through the intermediary of brokers.

● To define the duties and responsibilities of brokers and reinsurers in the placing of new and renewal business, and in the servicing of business, including the handling of claims and the run-off of cancelled contracts.

responsibilities of brokers and reinsurers in the placing of new and renewal business, and in the servicing of business, including the handling of claims and the run-off of cancelled contracts.

● In the light of the above, to identify deficiencies in present practices and systems and to recommend ways in which these could be remedied or reduced and the system improved in the interests of the market as a whole.

● The ultimate objective is to

establish codes of practice which will enhance the standards of service provided within the market and to its cedants.

Once some basic thoughts on the issues have been produced, the ROA aims to widen the circle of people consulted, which at some stage will include Lloyd's underwriters. The aim is to take the process gradually "so that the end result will be acceptable to everyone," Mr Prevost says.

He has already made it clear that the ROA is fully open to

what he calls "constructive liaison" with the London Broker's Reinsurance Committee, the Lloyd's Underwriters Non-Marine Association and the Policy Signing and Accounting Centre (PSAC).

He also hopes the project can run in conjunction with the parallel moves by Lloyd's to update regulation of Lloyd's brokers. Lloyd's is planning to publish later this year its consultative document on broker regulation.

Nick Barker

The largest professional reinsurers in 1984

Company	Country	Net premiums in m. of loc. cur.	In US-\$m.
Swiss Re Group ¹	W. Germany	8,652.9	3,086.4
General Re Group ¹	USA	6,552.0	2,534.8
Employers Re Group ¹	USA	1,590.4	1,590.4
Mercantile & General Re Group ¹	USA	828.4	828.4
Coventry Group ¹	Great Britain	511.5	591.5
Prudential Re group ¹	W. Germany	1,793.4	568.7
American Re	USA	480.4	450.4
SCOR (Société Commerciale de Réassurance)	France	441.5	441.5
Calson Re	W. Germany	3,816.5	392.8
Frankonia Re	W. Germany	1,202.8	382.1
W. Germany	W. Germany	1,107.2	351.7
San Fire & Marine Re	Japan	79,093.0	315.0
Manover Re	W. Germany	590.6	282.9
New York Insurance Exchange	USA	218.0	218.0
Netherlands Reins. Group ¹	Netherlands	782.7	214.9

¹ net of subsidiary reinsurers, companies, and direct insurance companies. Source: Swiss Re.

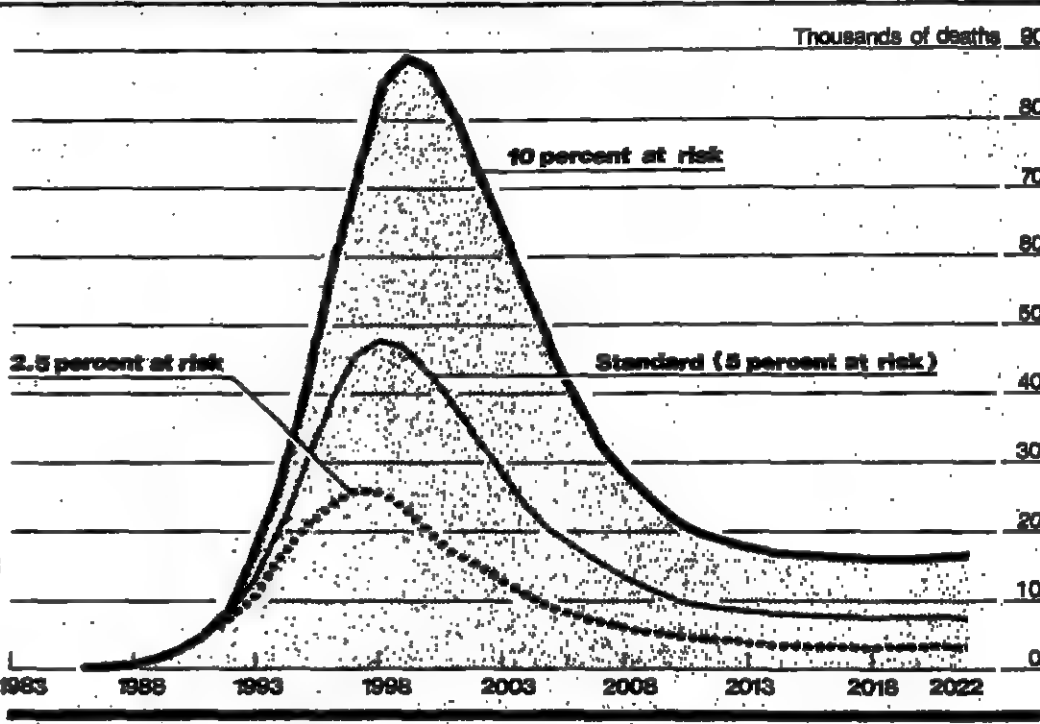
1998 peak for Aids

The number of deaths from Aids in the UK could peak at 48,000 in 1998, then fall and level out, according to a study by Prof David Wilkie, one of Britain's most distinguished actuarial scientists.

The graph is one of a number of illustrations contained in a preliminary memorandum on Aids produced by Prof Wilkie in July, and published by R. Watson & Sons, the consulting actuaries. It is based on what Prof Wilkie calls a "plausible, albeit speculative" mathematical model developed from studies by him and by his wife, a research psychologist who deals with haemophiliacs.

It shows the number of males who could be expected to die of Aids each year between now and 2022. The three lines on the graph each represent an actuarial projection based on different assumptions about the percentage of the population at risk from the disease because they are homosexual. Projection A - which yields the figure of 48,000 deaths in 1998 - assumes that five per cent are at risk, whether because they are homosexual or for some other reasons. Projection B assumes that 10 per cent are at risk, and Projection C that 2.5 per cent are in the risk category.

Nick Barker



CITIBANK'S COMMITMENT TO THE INSURANCE INDUSTRY



Stafford Crow, VP and Senior Insurance Banker, Europe, left, and Peter Hayes, VP and Insurance Banking Division Head.

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CORPORATE TRUST

Through our offices in London, New York and our branch network in Europe and the Far East, we offer full service facilities for handling bond and note issues raised in those markets. Our services include trustee, registrar, fiscal agent, depository, listing agent and escrow facilities.

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Officers of the Insurance Banking Division, discussing a financial reinsurance customer strategy. Pictured from left: Brian Atkinson, VP; Alan Blake, VP; David Garner, VP; Mike Taylor, VP; Sally Carmichael, RVP.

timely, qualitative advice and a highly competitive dealing service.

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For further information contact: Peter Hayes, Vice President and Insurance Banking Division Head, Citibank N.A., 6th Floor, 7 Savoy Court East, London, WC2R 0EA. Telephone: 01-338 0662.

SECTION IV

FINANCIAL TIMES SURVEY



With very little manufacturing industry, this British colony relies heavily on tourism and

international business for its prosperity. The performance of both was disappointing in the early 1980s but they are now performing healthily, reports Andrew Baxter.

Trading on its position

SIX HUNDRED miles from its nearest neighbours on the eastern seaboard of the US lies a small, subtropical island of 58,000 people engaged in building a sophisticated service economy geared to the demands of the late twentieth century - but with its roots going back to the early seventeenth century.

Bermuda, Britain's oldest self-governing colony, is out on its own in the middle of the Atlantic, about 1,000 miles from the Bahamas with which it is often confused, and separated by some 3,500 miles of ocean from its mother country. Little wonder, therefore, that Bermudians have learnt to stand on their own feet, adapt to circumstances, and make the most of their island's physical and geo-political assets.

With virtually no raw materials of its own, Bermuda has always had to look to the services it can offer during the past 378 years of continuous settlement. The "customers" over that period have ranged from entrepreneurs seeking a pleasant, free-wheeling environment for making money, to governments alert to the island's strategic importance. In a sense, therefore, Bermuda has always been trading on its position.

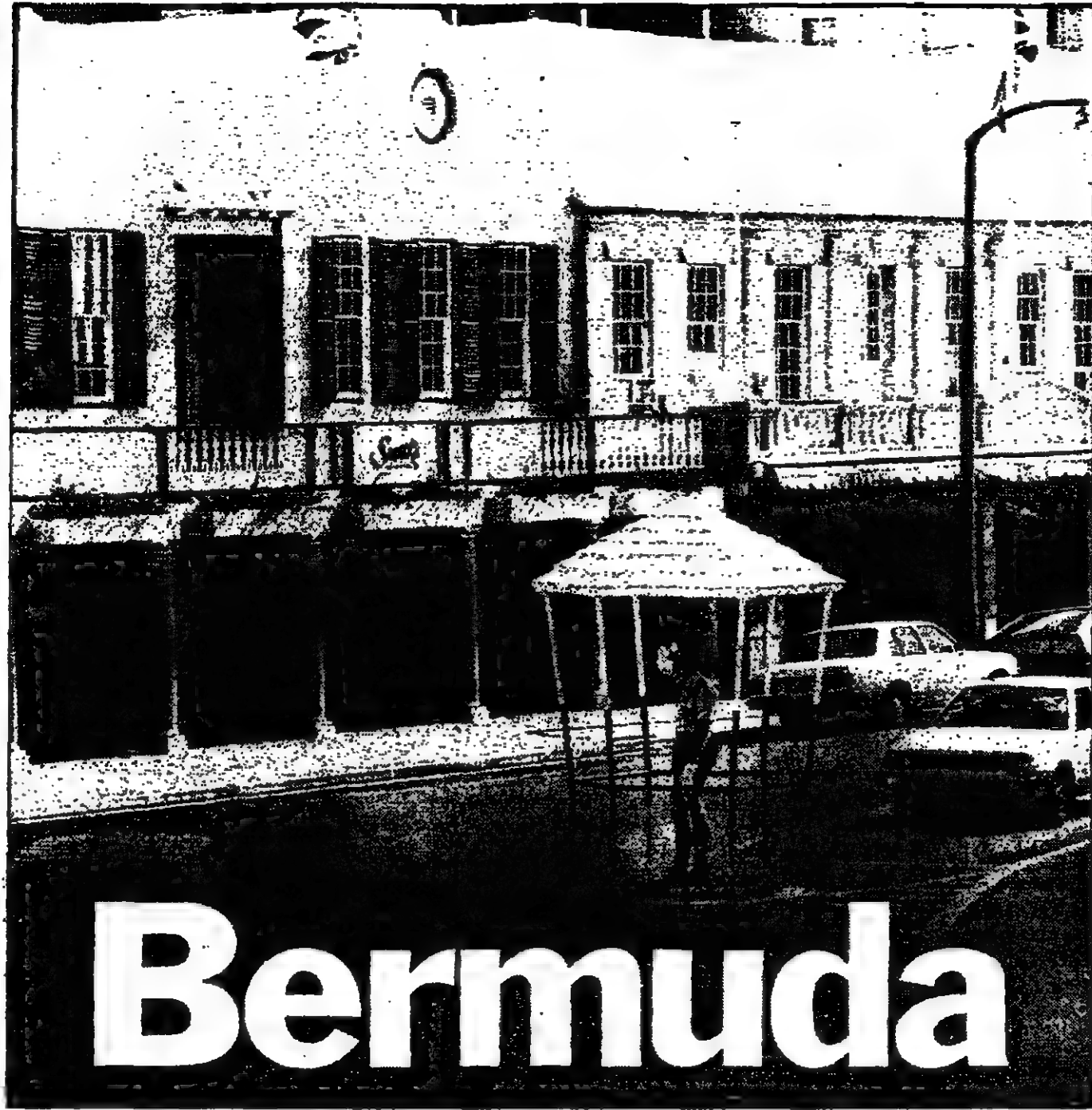
Bermuda's present-day fortunes, however, are heavily reliant on a course that was set af-

ter World War Two, and from which there is no turning back. Two industries, tourism and offshore business, provide the bedrock for the country's prosperity, and the bulk, directly and indirectly, of a tiny \$1.3bn economy.

To ensure that Bermuda maintains one of the world's highest standards of living - per capita income of \$20,000 is on a par with the most prosperous US states - the island has to continue to safeguard these two industries' future development. It is too late, and hardly appropriate environmentally, to develop a manufacturing base, and with 3,000 inhabitants per square mile there is no room anyway.

Events in the 1980s, however, have stressed the extent to which the health of the two core industries can be affected by matters beyond the island's control. By 1985/86, Bermuda's external demand (tourism, international business and other goods and services exported) was down about 9 per cent in real terms from 1980/81.

The problems of the insurance industry worldwide brought a marked contraction in the activities of Bermuda's captive insurers, and hence employment in the sector. Meanwhile the strength of the dollar until late 1985 encouraged US tourists to travel overseas,



Bermuda

Front Street: Bermuda is likely to keep its aura of tropicalised Britishness

where their money went further than in the British colony, where the Bermudian dollar is pegged at par with the US currency.

Then last year Bermuda had a stroke of luck. Tourist arrivals rose to near record levels as the "Gaddafi factor" discouraged Americans from visiting Europe. With 75 per cent of Bermudian employment influenced in some way by tourism, the effects on domestic economic activity have already been felt, while Bermuda's balance of payments rebounded to a \$70m current account surplus in 1986 after deficits in the two previous years.

The recovery is continuing this year, with words such as "booming" and "buoyant" on the lips of politicians and businessmen, including those in insurance, where the failure of the US to ratify its tax treaty with the colony continues to inject an element of uncertainty. Mr John Swan, Bermuda's Premier since 1982, says: "The country has never been in better shape... This year could be the best that the country's ever had."

The island's businessmen are apt to describe the dual axis on which the island's prosperity is based as "fickle", given its dependence on external factors. Lately, however, Bermuda has been attempting to take the initiative in ensuring that less is

left to chance. Tourism marketing has been revamped with a view to increasing visitor numbers in the off-peak months and reducing dependence on visitors from the eastern seaboard of the US.

In international business, while Bermuda's status as a low-tax jurisdiction may originally have encouraged offshore companies to establish a presence - physical or otherwise - tax advantages are now marketed as just one element in a package of benefits - good communications, sophisticated banking and professional infrastructure, proximity to the US, not to mention excellent beaches and golf courses - to attract new businesses.

Tourist arrivals this year may exceed 1980's record total of nearly 610,000, while offshore companies on Bermuda's register rose from 6,349 at the end of 1985 to 8,460 at June 30. But, as is constantly pointed out by Bermudians, it is quality rather than quantity that counts if Bermuda is to maintain its high standard of living.

A crucial element for maintaining competitiveness is value for money. Bermuda is already a high-cost destination for the tourist or offshore business, and does not pretend to be the cheapest of the low-tax jurisdictions or up-market holiday centres.

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Some businessmen believe hotel prices are, as Mr Donald Lines, chief general manager of Bank of Bermuda, puts it, "pressing the top edge of what is acceptable". Land prices and labour costs, too, are rising faster than the general level of inflation.

Addressing these problems will require continued co-operation between government, business and the population at large. The links between the first two have always been close - too close for some critics whose complaints about the Bermudian old school tie network still have some force - and are an inevitable result of the days before the 1988 Constitution when white business interests held sway.

But the system has its advantages on a small island where, to an extent, everyone has to pull together. This year, for example, proposals for an overhaul of banking and financial services regulation have emerged relatively quickly following general agreement that a more rigorous approach was needed.

For Mr Swan and his United Bermuda Party, the challenge is to preserve the prosperity of its core businesses, and at the same time fulfil the growing expectations of a community that is getting used to success.

Mr Swan talks of "attempting to address some of the social issues, without discounting efforts to build the economic base". In a country where 60 per cent of the population is black, and which was essentially segregated until the 1960s, social issues pertain largely to the welfare of the black community and the development of its role in society.

Undoubtedly great strides have been made over the past 20 years, and Mr Swan, Bermuda's first black premier, can justifiably take credit for opening society up to advancement for blacks, particularly young professionals, in the civil service, banking and in government.

at five o'clock they still go their separate ways," he adds.

Mr Swan acknowledges that the handling of race relations "still requires a great deal of sensitivity". He sees more, and improved education, as playing an important part in addressing this, and the related problem of Bermuda's skills shortage. With a stable, if slightly declining, population, and a workforce of some 26,000 Bermudians to fill 34,000 jobs, non-Bermudian labour, whether for the menial jobs that Bermudians do not want or the professional and financial posts that are having to be filled by expensive North American and UK imports, is a permanent feature of the island's employment market.

Many governments, of course, would readily choose to grapple with overemployment rather than unemployment, but on a small island the tightness of the labour market represents a further constraint on growth.

Mr Swan's guiding principles are based on an essentially pragmatic conservatism, or "wetism" as one observer put it. As leader of a party which has developed into a coalition of interests, a cautious approach to policy change is inevitable.

Nowhere is this more the case than in constitutional matters and foreign relations. Bermuda's economic success over the past year, and increasing political stability, have raised questions about the need for continued protection of the local economy via exchange rates and interest rate curbs, and revived the thorny question of independence.

Opinions are sharply divided on both issues, and the government has to tread warily. On independence, it is probably fair to say that the issue is being watched more closely in the US, which has important military installations on the island, than in the UK, which takes the line that independence is for Bermuda's people to decide.

Whatever happens, Bermuda is unlikely to lose its aura of tropicalised Britishness - symbolised by the Bermuda shorts worn with British police uniforms but still going deeper than that. This, most Bermudians appear to feel, is worth retaining in some form on an island which relies so heavily on the US to keep the twin wheels of its economy turning.

BERMUDA MEANS BUSINESS

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BERMUDA 2

Little to worry about in the economy, says Andrew Baxter

Twin wheels are well oiled

A COMBINATION of historical factors and present-day realities has given the Bermudian economy and monetary system a profile unique not only among offshore business centres but worldwide.

As there is virtually no manufacturing industry, Bermuda relies crucially on tourism and international business for its prosperity and for maintenance of a tenable balance of payments position.

But while both the domestic and offshore business sector operate in a low-tax environment, there is no personal or corporate income tax and no capital gains tax - local companies and individuals are protected from the full effects of world economic trends by exchange controls and interest rate curbs. The maximum rate paid on Bermudian dollar deposits, 7 per cent, goes back to 1976.

Even so, no amount of domestic controls can disguise the fact that Bermuda's fortunes are inextricably linked to those of the US. The Bermudian dollar is pegged at par with its US counterpart, in recognition of the fact that the bulk of Bermuda's trade is with the US. As a side-effect, it also makes life easier for US tourists.

The result is that US dollars circulate freely - particularly in hotels and restaurants used by tourists - despite not being legal tender, by some interpretations of the law.

More importantly, the combined effect of all these factors is to restrict Bermuda's influence over its own fortunes, and expose the island to economic events and swings of sentiment rather less predictable than the tropical storms which occasionally blow through.

Last year, for example, the major reason for the much-improved performance of the Bermudian economy was the upsurge in tourism, producing the best year for visitor arrivals since the record year of 1980.

This largely reflected the weakness of the US dollar and fears over terrorism, both of which encouraged Americans to holiday at, or closer to, home. The result was a surplus of \$326m in the travel component of the balance of payments, up from \$272m in 1985. Inevitably, higher tourist numbers and increased domestic spending sucked in more imports, and the merchandise trade deficit rose from \$348m to \$366m.

These factors helped Bermuda post a creditable \$70m current account surplus last year, which compares with deficits of \$23m and \$4m in 1984 and 1985 respectively.

Real gross domestic product rose by a provisional 2.9 per cent in 1986/87, against 2.7 per cent in the previous financial year, when temporary hotel closures had a negative effect, and a fall of 2.3 per cent in 1984/85.

GNP was a provisional \$1.26bn for 1986/87 and Dr Clarence James, Finance Minister, is projecting a further rise of 2 per cent in the current year. The signs are, however, that this could be exceeded. Tourist arrivals appear to be running well ahead of last year's levels and businessmen say the domestic economy is booming. Optimism is increasing in the international business sector, particularly insurance, where two years of marking time have followed some well-publicised financial disasters.

This bodes well for the balance of payments, and Mr Nicholas Weinreb, Dr James' economic adviser, sees no reason why the current account should not be in surplus by \$50m-70m this year.

External factors, however, can have a negative effect. Bermuda's annual inflation rate, which had reached a trough of 3 per cent in August 1985, had risen to 4.3 per cent by the end of last year.

This was due to what the Bermuda Monetary Authority in its

Balance of Payments

Current account balance \$ MILLIONS

1982	+12.9
1983	+26.0
1984	-23.0
1985	-4.0
1986	+70.0

Source: Government & Statistical Dept.

1986 report calls "an unwinding of the effects which combined to produce a very favourable effect for containing inflation, principally the strength of the dollar and the weakness of oil and other commodity prices". Bermuda has to import all these items.

This year the rate of increase in the goods component of the consumer price index has fallen from an annual level of 4.8 per cent in March to 4.5 per cent in June. The greater stability of the US dollar, earlier in the year, helped, but any further recovery in oil prices or weakening of the US currency could quickly reverse the trend.

In contrast, the increase in the cost of services was 4 per cent in June against 3.3 per cent in March. This partly reflects seasonal factors such as a 6.1 rise in restaurant prices to catch the high season.

Indeed, with the rise in the index as a whole running at 4.3 per cent, there would appear to be little for Bermuda to worry about. In an interview, Dr James said that the aim was to keep Bermuda's inflation rate at approximately the same level as that for its major trading partners.

However, Mr Weinreb noted that Bermuda's perennial labour shortage, which pushes up salaries of skilled workers, and rising land prices would produce a 6-7 per cent increase in

the costs that matter for the export-based section of the economy.

The cost of services is a constant complaint of Bermudian bankers and business leaders, who are acutely aware of the need to remain competitive with other offshore tax jurisdictions and tourist destinations.

Wage settlements in the past year have been running at around 6-7 per cent in both the private and public sectors, although the figures are usually somewhat lower in the second year of each agreement.

Mr Joseph Johnson, president of the Bermuda Chamber of Commerce and a leading figure in the island's insurance industry, said his single most important concern about the economy was rising costs, especially salaries, which had to be passed on to the consumer.

"We should always be concerned about pricing ourselves out of the market," he adds, however, "we haven't done that yet".

Dr James himself, in his Budget speech for 1977/78, said: "Bermuda is already known as a high-cost centre and I am afraid that if we as a community simply exploit the healthier economic climate we will reap benefits only in the short-term, while sowing the seeds for far poorer long-term prospects than might otherwise be the case".

Meanwhile, with no central bank to change currency or interest rates, Dr James has resorted to fiscal means to take advantage of the recent economic growth while addressing some of the problems of success.

In the recent Budget he reduced the duty on fuel imported by Belco, the island's electric utility, and the duty on spare parts for commercial boats and passenger cars. He also extended a duty concession on wool clothing to all clothing made of natural fibres and leathers.



Dr James, left, and Mr Johnson



These moves, costing \$3.1m at most in lost customs duties, are intended to stimulate business activity and keep inflation in check.

At the same time, domestic liquidity has risen as a result of the recent economic upturn, but also because falling interest rates overseas have made the domestic market look more attractive for lenders. Mortgages outstanding rose by \$30m to \$165m in 1986. To top up the excess liquidity, the government has switched some of its borrowings into Bermudian dollars.

As for the government's own revenues and spending, Dr James says Bermuda has been attempting to build up a modest surplus in its consolidated fund by accruing some of the excess of revenue over current expenditure, rather than spending it all on capital programmes. Nevertheless, capital spend-

ing jumped sharply last year, from \$18.4m in 1985/86 to an estimated \$42.7m. This partly reflects neglect of basic infrastructure investment in the early 1970s, and Dr James observes that with the range of capital projects now being demanded by the public, "you can easily get to \$300m in projected costs".

Capacity constraints in the construction sector make such spending impossible unless phased over long periods, and Dr James said capital spending would average \$35m-50m over the next two years against about \$25m in recent periods.

Moreover, with a long-term aim to eliminate public debt, it is hoped to avoid borrowing further to pay for capital investment. There is a legal limit of \$100m on long-term government borrowing, and until this year, one \$75m multiple-option tender panel facility for the is-

land's housing corporation. Of this, \$20m has been repaid with proceeds from a new \$40m facility arranged for the colony by N M Rothschild - the first foreign borrowing by the government in its own name.

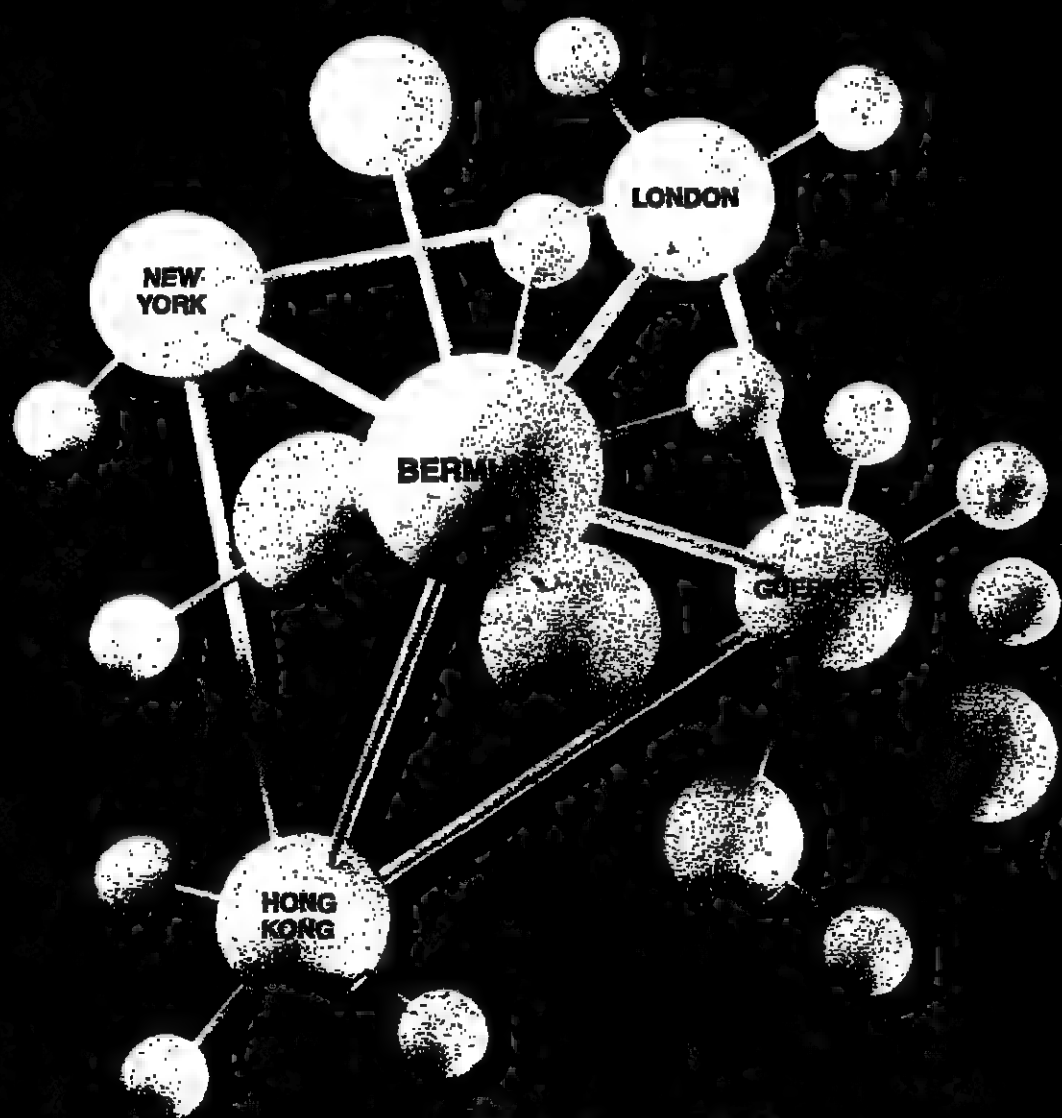
The rest will be used to finance the construction of a refuse incinerator, which together with the much-needed redevelopment of Bermuda's civil air terminal will cost some \$47m. These projects cannot be phased beyond the next two to three years.

Revenues this year are estimated at \$231.5m against \$246.6m in 1986/87, while current spending is projected to rise from \$202.8m to \$220.2m. Much of the increase in recent current spending has come in health and social services, which this year is expected to account for \$48.1m or 22 per cent of the spending total.

The rise in total spending has inevitably sparked concern in the business community about government's increasing share of GNP, with the percentage rising from 20.2 per cent in 1981/82 to 23.8 per cent in 1986/87.

Dr James said this reflected the fact that government did not reduce its activity in the years prior to 1986 when the economy was weak. Taxes had been raised to allow the government to carry out the tasks it deemed necessary.

The recent duty cuts go some way to roll back increases that had taken taxes as a percentage of GNP to 19.4 per cent last year, considered high by Bermuda standards. However, although the economic upturn has given Dr James more leeway to stimulate activity, balanced budgets and "sound finance" will continue to provide the framework for economic policy.



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International business

Bringing into focus a reclusive image

WITH ABOUT 75 per cent of all jobs in Bermuda influenced in some form by tourism, few Bermudians are aware of the economic impact of one of the twin pillars of the island's balance of payments.

The other - offshore or international business - is by nature less obtrusive and, in the opinion of many bankers, lawyers and accountants whose livelihoods depend to a considerable extent upon it, less well understood.

This has prompted plans by the business community to launch a public relations exercise designed to increase ordinary Bermudians' awareness of the international business sector and its economic benefits. "It's not that there's an image problem. They just don't have an image," said one banker.

A report commissioned by the Ministry of Finance, and written by Prof Brian Archer of the University of Surrey, should give some statistical backing to the exercise.

Published this summer, it is the first systematic attempt to assess the direct and indirect impact of a sector which is by definition intangible and reclusive. After all, of some 6,000 international businesses registered, fewer than 300 have a physical presence on the island, and more than half of these are insurance-related.

The first offshore company was established in 1935, but the main period of growth has been in the past 15 years. The prime focus of the sector has also changed over the years, with corporate business supplanting trust work for wealthy individuals.

The two main types of businesses in the sector are "exempted" companies, which are exempted from the 60 per cent local ownership required for other companies. While incorporated in Bermuda, they can be formed for a variety of purposes, but not commercial banking.

Then there are "permit" companies, which are registered elsewhere, for example in another offshore jurisdiction, but can otherwise operate like exempted companies. Both types

Businesses Registered in Bermuda

	New Registration, International			
	Local ^(A)	Exempted	Exempted Partnership	Non-Resident Insurance
1982	77	479	7	48
1983	94	516	8	37
1984	96	498	6	67
1985	119	535	10	64
1986	94	591	14	84

Number on Register at End of Year^(B), International

	Local ^(A)	Exempted	Exempted Partnership	Non-Resident Insurance
1982	1,005	4,959	42	666
1983	1,065	5,162	47	618
1984	1,096	5,290	50	671
1985	1,178	5,376	67	683
1986	1,238	5,531	71	646

(A) Does not include unincorporated enterprises.

(B) Net of Companies in process of liquidation.

Source: Registrar of Companies, Research: Reiss Reisch.

are barred from carrying on purely local business.

At the end of 1986 there were 5,561 exempted companies, of which the largest single group was investment holding companies (1,686), followed by insurance companies (932), commercial trading companies (469) and shipping concerns (445).

According to the Archer report, international companies spent \$232.6m in Bermuda, in 1985. Given the greater physical presence of the insurance companies, it is not surprising that they account for \$125.6m of this.

All but \$14.5m of this spending, which Mr Archer calls a direct contribution to Bermuda's invisible exports, went to the private sector.

However, as a large part of this money is spent in Bermuda, it "sets in motion a further flow of dollars through the economy, creating further business activity, income, employment and public sector revenue," says the report.

This multiplier effect is largely the result of the \$96m in bank and professional fees paid by the offshore sector, and the \$81.9m paid out in wages and salaries (1985 figures).

This is received as revenue by local companies and as household income by individual Bermudians. Mr Archer calculates total business revenues ultimately generated by the international sector to be \$576m.

The impact on employment also reflects the multiplier effect. Direct employment in international companies averaged about 2,220 in 1985, against a total workforce of some 33,000. Bermudians comprised 64 per cent of workers in the sector.

But Mr Archer states that about one-third of the 1,834 employees of Bermuda's three banks in 1985 would have lost their jobs in the absence of international company business.

As for the professions, removal of international company business would range from damaging to devastating.

Bermudian accountants' staff would fall by more than 70 per cent, lawyers by more than half and the management and insurance management sector would be decimated. Mr Archer calculates total employment generation by the offshore sector, including secondary effects, at 5,980 jobs.

Andrew Baxter

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BERMUDA 3

Politics

Stability encourages debate

IN JANUARY, Mr John Swan, a 52-year-old self-made millionaire, celebrated five years as Bermuda's Premier and leader of the United Bermuda Party, which has held sway throughout 20 years of party-political democracy.

The UBP has 31 seats out of 40 in Bermuda's House of Assembly, while the Progressive Labour Party, the official opposition, is only slowly recovering from a serious split in the mid-1980s, which saw its representation fall to seven seats in the 1985 general election, compared with 18 in 1980.

Not on the face of it, a promising scenario for lively politics. But that does not stop the electorate of some 30,000 - little more than half the size of many UK constituencies - their representatives, and a lively if occasionally over-zealous, press discussing everything from weighty constitutional issues to tourist-season traffic problems.

Mr Swan, too, would appear at first glance to be in a strong position. The island's first black Premier has made considerable progress in opening the upper echelons of Bermudian politics and the civil service to the country's middle-class blacks, thus accelerating the transformation of the UBP from what was once purely the champion of the white business class to a more broadly-based spectrum of interests.

He also has the reassuring knowledge that he has presided over a strong economic recovery, which has laid the foundations for progress on racial integration and hence stability. It was, after all, as recently as 1980 that Bermuda was hit by riots and industrial confrontation.

The problem, however, for Mr Swan is that this stability, and increased confidence over future economic and social development, is also encouraging debate on the island's constitution, foreign relations and financial regulations. It is in these areas that the UBP's coalition of sometimes widely opposing views is clearly evident.

There is a saying in Bermuda that the real power on the island resides with the so-called "40 thieves" or white business, followed by the City of Hamilton, with the UBP caucus third and the government itself in fourth place.

This exaggerates, but like many such observations is not entirely untrue, particularly as regards the UBP caucus - which groups the party's MPs - and its relations with the government. Last month's caucus meeting to discuss easing exchange controls showed that some party backbenchers are strongly op-



Mr John Swan (left), Mr CV Woolridge, Viscount Dunsany



posed to the very cautious steps taken by the government and were hoping for more thoroughgoing reforms. By all accounts, they were not afraid to say so.

The issue of possible independence for Bermuda, which is the UK's oldest self-governing colony, promises to be even more contentious. Despite being proposed by the PLP as long ago as 1963, it has largely remained on the back-burner since then, but now threatens to generate some heat.

Both opposition parties, the PLP and the two-member National Liberal Party which emerged from the ructions within the PLP, support independence, but not even the PLP has ventured to risk electoral defeat by making it part of its campaign platform. Polls suggest at least 60 per cent of the electorate oppose it.

Why, then, has it emerged as an issue which, according to Mr CV "Tim" Woolridge, a UBP backbencher and ardent opponent of independence, has split the UBP more seriously than any other? Probably because, as many believe, Mr Swan wishes to be Bermuda's first Prime Minister, the title he would assume if the island went independent.

Mr Swan, however, is too astute a politician to force a quicker pace than his party or the country could handle. He will say, however, that "I'm satisfied that there is a genuine desire across the community to know more about the process [of going independent] and the options that might be available to us. What would be the consequences - economic and social - and long and short-term liabilities?"

These considerations have been looked at over the past year by a UBP independence review committee, headed by former-premier Sir John Sharpe and created after last

year's defeat of a private member's bill calling for a referendum on the issue. The motion, sponsored by Mr Hugh Richardson, president of the Senate or upper house, never reached debate in the House of Assembly, but served to refocus attention on an issue which was the subject of a 1979 White Paper.

The committee's report, out last month, points out that while external affairs, defence, internal security and the police were areas reserved for the UK government in the 1988 constitution, in practice there has been considerable delegation of these duties from the Governor, currently career diplomat Viscount Dunsany, to the Bermudian government. The colony, for example, is able to carry out its own negotiations with the US on a tax treaty and also handles most administration of the police.

This provides ammunition for both supporters and opponents of independence. On the one hand it is argued that Bermuda has gained the experience necessary to make independence work better than has been the case elsewhere. Others counter that it demonstrates the extent to which Bermuda is self-governing anyway. "We're independent in every sense of the word," says Mr Woolridge. "I have to ask myself what real benefits we would gain."

For most Bermudians, the key questions of security, and the related cost issue, are paramount. The present defence treaty, signed between the US and the UK in 1941, gives Bermuda shelter under the Nato umbrella, at no cost. In return, for a 99-year lease, the US has a naval base and air station on the island. Under a separate agreement it also runs the airport which is used for civil aviation.

Mr Swan says independence would not affect the defence

treaties. Mr Frederick Wade, PLP leader, says that if the party were in power after independence, it would be prepared to renegotiate them to form the basis of the island's defence. There is considerable debate, too, over the means by which independence might be achieved. Mr Wade wants a general election to be fought on the issue, so that "everything is up for grabs".

Mr Swan, with more to lose as the incumbent Premier, does not want the issue to be confused with an election. An independent Bermuda under the PLP would be anathema for white business interests, but there are plenty of older blacks resisting it, too. For Mr Swan, there is a danger that the divisions in the UBP over the issue will reduce his room for manoeuvre on other issues.

Already a loosely-knit group called Concerned Bermudians, which includes several right-wing UBP MPs such as Mr Woolridge, has been formed to fight independence and influence other issues such as tourist policy. This, and the debate within the UBP on matters such as exchange controls, illustrates that Mr Swan at present faces more effective opposition from within his party than from outside. But there is no personality strong enough to make a direct challenge for the premiership.

Mr Wade claims many young professional blacks, who joined the UBP to support Mr Swan rather than the party itself, are now leaving in disenchantment to join the centrist NLP. The PLP is also gradually regaining support among black professionals, he says. However the party has been almost totally unable to broaden its support into the white community, and the UBP continues to be seen by the majority of Bermudians as the natural party of government.

Andrew Baxter

Profile: Sir David Gibbons

Man who wears many hats

BLAZERS AND Bermuda shorts are the most obvious elements of a uniform among leaders of the island's business and political spheres, but hats - of the metaphorical kind - are important, too, on a small island where the two inevitably overlap.

Few people have worn more, or so many at the same time, as Sir David Gibbons, KBE, former Finance Minister, Premier, chairman of the Bermuda Monetary Authority and now chairman of Bank of N.T. Butterfield.

He is the successful Bermudian par excellence - Harvard-educated, chief executive of a major family business empire as well as the bank, and involved in government service of one kind or another since 1948.

His career straddles a period during which Bermuda has been transformed from a racially-segregated society run by and for the benefit of merchants, to the more open, prosperous, reasonably stable, party-political environment today.

And, while being perhaps the most influential member of what has emerged from the merchant class, he was also one of a small group of wealthy Bermudians who realised in the 1960s and 1970s that times had to change, politically, economically and socially.

Sir David's more tangible achievements, however, are on the financial side, as one of the architects of the financial foundation for the island's success - the banking system, tax regime, regulatory structure, and, perhaps most important, balanced budgets.

The story is told of when he visited London as Finance Minister, took the Underground to Westminster and walked to Downing Street for a meeting with Mrs Thatcher. On being formally introduced by Sir Geoffrey Howe, then Chancellor of the Exchequer, Mrs Thatcher expressed astonishment that Sir David had walked. "That, madam, is how we balance our budget," was his reply.

Sir David was born in 1927 into a family which, although established in Bermuda since the early seventeenth century, had until 1916 an absolutely unblemished record of non-achievement, as he puts it.



Successful Bermudian

One forebear had risen to become registrar of the Supreme Court, while another was a sea captain - although a picture found many years later revealed that he skipped a mere 60-footer on the Turks and Caicos salt trade route with a crew of one.

The family's fortunes changed when Edmund Gibbons, Sir David's father, bought 2,000 pairs of surplus naval boots for 1/- and resold them for 2/6d. From there he branched out into men's and boys wear, while Sir David's mother set up a women's wear business which developed into a Hamilton department store.

By the time Sir David returned from the US in the late 1940s as an economist specialising in money and banking, his father had diversified into property. Sir David was put to work in the family business at £10 a week - grievously underpaid, he felt, given his educational background. "I told my father, and he told me I knew nothing about pricing shirts, and that was all it was worth."

At the tender age of 21, Sir David, who was knighted in 1983, joined his first government board, and meanwhile had begun running parts of the family business as it moved into motor dealership, wine and spirits, and insurance.

In 1968, his financial background and friendship with the Butterfield family brought an invitation to join the board of

the family bank. The four or five octogenarian board members "suffered me patiently," he recalls.

During the 1960s he played a major part in refocusing and modernising the bank - while simultaneously running two or three family companies - and was vice-chairman of the bank in 1972 when he resigned to contest a parliamentary seat.

He had already served on a string of government boards, and became an MP just four years after Bermuda was given its new constitution enshrining the party-political system. "I was alarmed at the way the national debt was escalating, and went in with the idea of reviewing taxation," he says.

The idea became reality when, as health minister from 1974-75, he introduced an insurance-based health care payments system. He also ended the "archaic" system of non-contributory Civil Service pensions, and then, as Finance Minister from 1975, surprised the nation by announcing that he planned to balance the budget.

In 1977, the United Bermuda Party was seriously split over the pace of social change, and Premier Sir John Sharpe could no longer command full support. Riding on the crest of two balanced budgets, Sir David emerged as a compromise choice. "I was the one people disliked least," he says.

Sir David's premiership, from 1977-82, was not a happy time for the UBP, with support falling to an all-time low in the 1980 election, or for Bermuda, with industrial strife, civil unrest and growing black dissatisfaction.

Sir David recalls, however, that as Premier he enjoyed the pleasure of meeting a lot of people and derived real pleasure from developing the mechanism of government. "I was always a professional and/or technical person."

This style of premiership irritated opponents within and outside the party. A long-time associate says Sir David is "one of the best decision-makers I know. The words 'I'll think about it' are not in his vocabulary." But the inevitable compromises and bureaucracy of

politics were alien to him. And kissing babies is not his style.

Sir David himself says that successful heads of government need fire in the belly, which he lacked. "I was much criticised by the opposition for running the government like a board of directors, and I think probably I did."

Symptomatic of this was his retention of the Finance Minister's portfolio throughout his premiership. "With my style of government it worked quite well. But it's not something that's good as a general rule," he notes.

By 1982, the party had decided it needed to have a black leader for sociological reasons, and Sir David stepped down in favour of Mr John Swan, whose candidature he strongly supported. But, in recognition of the importance placed by the electorate on the government's ability to manage the economy, he agreed to stay on as Finance Minister through another election.

In 1984 he left this post to become chairman of the monetary authority, and in May 1986 returned to Bank of N.T. Butterfield as vice-chairman, 14 years after resigning.

Under Sir David, who is now chairman of the bank, Butterfield is going through a similar process of change as occurred during his previous spell at the bank.

He spends up to a third of his time at the bank and the rest as chief executive of Edmund Gibbons Ltd, which employs some 450 people locally in everything from insurance to ice cream, and where his brother Graham, mayor of Hamilton, is chairman. Sir David is also chairman of Bermuda's Economic Council think-tank.

Given the only slowly-relaxing stranglehold of white business interests on the commanding heights of the economy and hence the political scene, it is debatable whether Sir David had more influence on the course of events as Premier than he has now. But most Bermudians would agree with the view that he is a financier first, politician last.

Andrew Baxter

GOING OFF-SHORE?

5 REASONS FOR TALKING TO THE BANK OF BUTTERFIELD

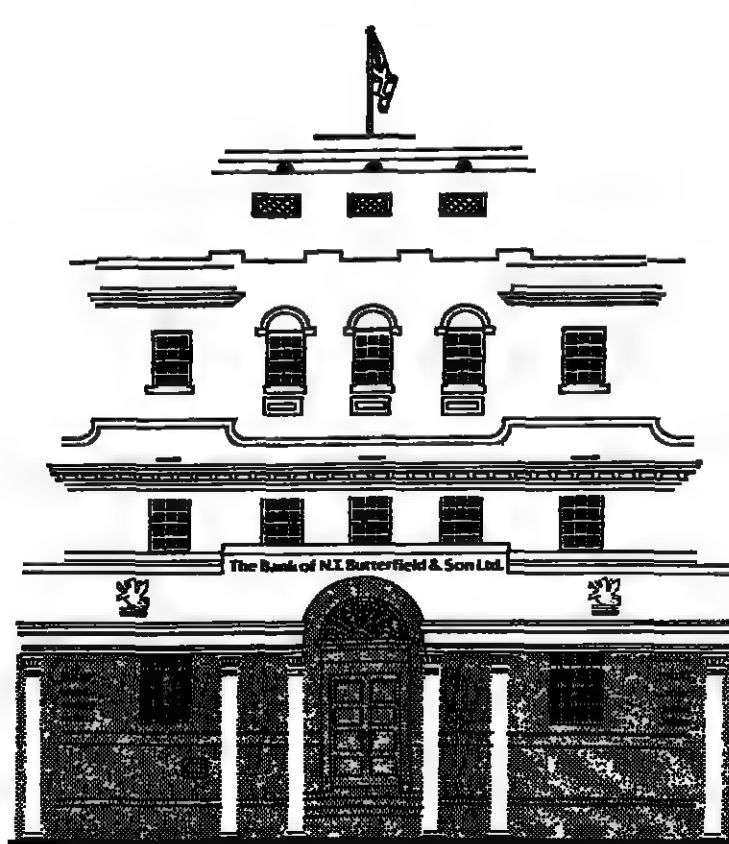
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BERMUDA 4

Profile: Mr John Cox

Why Ace won't bid low

HAD IT not been for a telephone call in June 1983, Mr John Cox would by now have been studying hard for a law degree instead of sitting in the chairman's office at Ace Insurance, the newly-formed but already cash-rich excess liability insurer in Bermuda.

Yet the 55-year-old executive is happier than he has ever been and vastly more content than he was in 1983. It was then, as president of the US insurance giant INA Corporation, that he had to perform what he describes as the most unrewarding job in his entire 30-year career—the termination of 2,000 employees following INA's merger with Connecticut General. Nine months later, he quit and joined the board of American Can, now Primetec. But not for long.

"Corporate bureaucracy was not for me," says the Ace chairman, lighting up a fat hand-made cigar, one of several he uses every day "to help me think."

"I was being paid a lot of money, a base salary of \$350,000 and a total package of about \$650,000. I remember a Wall Street Journal reporter asking me how I could give up that kind of money. But the money was not a motivating factor. Sure, I was financially independent but I was bored."

After 18 months he said goodbye to American Can and applied for a place at law school: "something I'd always wanted to do."

But the telephone call from the world's largest insurance broking group, Marsh & McLennan, put paid to that. Marsh wanted "a bit of help" with a new scheme it was working on. The scheme was Ace Insurance—a catastrophe insurance specialist, originally called American Casualty Excess until the acronym was adopted to avoid confusion with another excess insurer.

Not that there would have been much confusion. Ace, as Mr Cox is fond of telling people, is unique. The policyholder owed company offers liability cover of up to \$100m in excess of underlying insurance of \$100m. It also provides directors and officers (D&O) liability cover of up to \$50m in excess of \$25m. But its coverage-starved shareholders cannot buy D&O protection alone. They must first take out a liability policy (the cheapest is \$60,000) and then buy the D&O as an endorsement. And Ace requires its customers either to put up a



Mr John Cox: 'A cigar helps me think'

reserve equal to a year's premium or buy a three-year prepaid insurance policy.

As for accounts receivable, the two-year-old carrier has none. Premiums are either paid by their due date or the cover lapses. And Ace never negotiates prices.

"If somebody is not happy with our prices, we tell him to go somewhere else," says the combative chairman. "If we cut our price we won't have enough premium to pay the losses."

That Ace has been able to dictate its terms in this fashion is due not only to the shortage of insurance capacity worldwide but also to a fear of exposure to crippling high court awards. In short, the insurer helps corporate America sleep at

night—another Coxism from the man who counts 23 of the Dow Jones 30 Industrials among his clients.

Corporate Britain, too, he claims, is sleeping easier thanks to Ace. "British Oxygen, Beechams, Fisons, ICI, Lurgi, Burroughs Wellcome—they're all Ace policyholders," says Mr Cox.

Which explains why the insurer, owned by a Cayman-based holding company but operated from Bermuda, has got money coming out of its ears. So much so that it is currently offering to redeem up to \$200m-worth of Ace stock from its 242 shareholders.

"We've had the good fortune not to have had one claim since we started so we've got more capital than we need at present. Plus, anyone whose shares are bought back by the company will not be liable to related insurance income tax under the 1986 Tax Reform Act."

"And, even if we spend the full \$200m allowed for in the self-tender, we're still going to have more than the minimum capital level of \$25m laid down in our byelaws."

Not surprisingly, Mr Cox has no more mountains to climb. He argues that even if Ace had got its product wrong it could have sat back and clipped coupons from its investments until the insurance industry shot itself in the other foot.

"Which it would," he says scathingly of a business which he believes has drifted away from the industries it serves. "That's why Ace is so unique. It started with a clean slate and a new approach."

The approach has paid off. Profits for the first eight months of the company's current financial year were \$162m on total premiums of \$158m, of which the lion's share came from excess liability policies. Retained earnings for the period were \$271.5m, bringing balance sheet assets to \$672.4m. But the catastrophic liability game is a risky and unpredictable business in which claims are of low frequency but high severity.

And Ace, as the chairman is quick to point out, will eventually under-employ its capital and have to dish out massive dividends. For the moment, though, Mr Cox is having fun. He flies to Bermuda most weeks from his home in New Jersey and stays at the Hamilton Princess Hotel.

Which is owned by Ace policyholder Lurgi. He has a staff of 13 (roughly 21,967 fewer than he had at INA), a salary of \$300,000 a year, few constraints and a five-year contract that gives him the option of cutting his working week in half for a \$60,000 drop in pay.

"I haven't exercised that option so far and I doubt that I will next year," he says, reaching for another cigar. "The challenge of making it all happen is what keeps me here, not the money. I'll probably gradually reduce the time I put in and retire when Ace's roots are firmer."

And his next major project? "Baby-sitting. I'm taking 11 days off in September to look after some of my grandchildren."

Roger Seaton

Insurance

Doing what they do best

ONCE UPON a time, Bermuda's reinsurance industry liked to think of itself as the world's third market after London and New York—a smaller, mid-Atlantic version of Lloyd's whose underwriters would often be heard to remark derisively that the British colony was only ever shown the business that nobody else wanted.

But that was in the late seventies and early eighties, before the losses and retrenchments of the big players and a worldwide contraction of capacity had left Bermuda with barely a handful of professional reinsurers still interested in writing commercial-market international reinsurance business.

Nowadays, the industry prefers to think of itself as having safely crawled back into its womb by concentrating on the provision of reinsurance programmes and risk management services to the more than 1,000 captive reinsurers domiciled on the island. With the exception of the specialist carriers, the financial reinsurers and the recently-formed and massively-capitalised liability groups set up over the last two years, the big players are now Johnson and Higgins, Marsh and McLennan and International Risk.

"This third market talk was all rubbish in the first place," says Jonathan Crawley, a Lloyd's name and former London market broker who now heads the underwriting arm of Bermuda's only publicly-quoted reinsurer Aneco. "We have now completed our transformation, the dust has settled after some spectacular departures and we're doing what we do best which is looking after captives."

But the island's captive industry, which accounts for the bulk of Bermuda's net premiums of over \$6bn and is by far the largest of its kind in the world, has not been entirely trouble-free either. The United States' tax treaty with Barbados, which came into force early last year, worried almost all insurance managers in Hamilton, all that is except two or three who derive a lot of their business from Europe.

The rest feared that a key provision in the treaty exempting Barbados-based insurers from federal excise taxes of up to 4 per cent on US-originating premiums would result in business being moved south. Similar fears were aroused last year by America's decision to expand its risk retention act and make the formation of onshore cap-

tives (known as risk retention groups under the act) more attractive.

Bermuda's answer to what was perceived as a major threat to its economy, was to begin negotiations with Washington for its own treaty. That one was eventually signed in July 1986 was no mean achievement for a colony which has no corporate or personal income tax structure and no intention of adopting one. Getting it ratified by Congress was an entirely different matter and not even Bermuda's most powerful supporters in the US could overcome the resistance of a Senate which, after the mid-term elections of last November, fell under the control of the Democrats.

But James Medas, the US Consul General to Bermuda, says the treaty is by no means dead. He says the US has never ratified a treaty in less than 10 months and that most take a good deal longer than that.

"The Bermuda treaty wasn't really defeated so much as held up in our system," says Mr Medas. "It's merely following the normal course and I expect to see the Senate focusing on the treaty again this fall. Certainly the US government's policy is to have a level playing field one way or the other."

Which could mean either that Bermuda gets its treaty or that the Barbadians lose theirs or parts of it. Mr Medas acknowledges that the federal excise tax break granted to Barbados has been severely criticised on Capitol Hill but refuses to speculate on the future of the accord.

Bermuda's insurance managers are more forthcoming. Some privately believe the island will

not get its treaty and that the "loophole" on federal excise taxes in the Barbados agreement was a mistake that will be closed in 1989 when its signatories are allowed to make amendments. And most no longer worry about losing business to Barbados which, at the last count, had about 60 captives.

"The treaty has become a very hot issue for us," says Arthur Detert, vice-chairman of the Reiss Organisation which manages 200 captives worldwide, half of them in the care of its Bermuda subsidiary International Risk Management. "Bermuda may do better with a treaty but it can survive without it. I think its ratification has become more of a PR exercise for Bermuda than anything else."

And the federal excise tax break has become a moot point, thanks to the 1986 tax reform legislation in the US.

Tax reform, says Mr Detert, has changed the arguments for going offshore and swept more insurers in the US tax net. "If the tax advantages to operating from Barbados are so good, then why haven't more companies gone there?" he argues. "Our management subsidiary in Barbados has signed up only 13 since the treaty came into force 18 months ago."

Gamma, another of the leading insurance management names in Bermuda which opened an office in Barbados to avoid missing out on the expected rush of business there, has also not seen anything like the level of interest it anticipated. Says president Stewart Grayston: "Barbados has not turned out to be the threat to Bermuda that we all expected."

Instead, the Hanna chief, whose company manages about 80 captives in Bermuda, predicts that the Cayman Islands (360 captives) could well emerge as a strong competitor for captives looking for an offshore domicile. And the biggest threat of all, he says, comes not from competing offshore centres, but from onshore America.

"Vermont has just got its 100th captive, Illinois, which has an insurance exchange, has recently passed captive legislation, Delaware is climbing on the bandwagon and Canada is also interested. In attracting risk management business," says Mr Grayston, "everybody wants a slice of this business and Bermuda is going to have to watch its costs and keep its regulations flexible to remain attractive."

Horizon Insurance, however, is one captive that no longer finds Bermuda attractive. The 24-year-old insurer, owned by Cargill Inc, the US agricultural and commodities group, is closing its Hamilton office on September 11 because of changes in America's tax laws which no longer allow taxes on a captive's profits to be deferred until repatriated to its parent. Earnings are now immediately liable for tax and treated as though they were derived onshore, which is where Horizon's management is relocating.

Says Horizon president Ron Peschon: "There is now no advantage to us remaining in Bermuda."

Not even for the golf. Among the reasons why American businessmen have long chosen to invest in setting up a captive in Britain's oldest colony, easy access to well-manicured golf courses less than two hours flying time from New York has consistently been included.

But things are different now, says Mr Grayston. "Sure you can play golf in Bermuda but you can also play golf in Vermont and you can snow ski there too. Golf is a throw-away advantage. Business has to be the main justification."

And it is. While every capacity remains tight, captives are expected to keep on coming. And not even the current shift towards softer liability and casualty rates in the commercial markets is likely to deter them.

Says Mr Grayston: "There's more of a commitment to captives now than there was previously. The commercial market stuck it to their customers once too often."

Roger Seaton



The Homewood: a regular visitor

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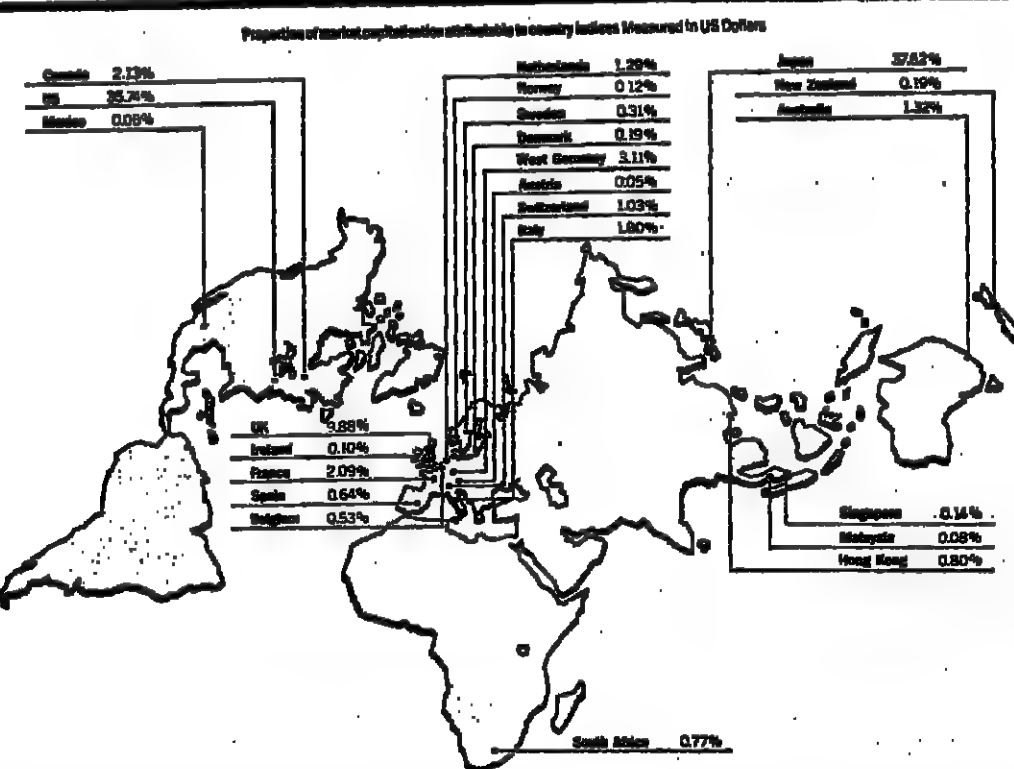
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BERMUDA 5

Profile: Mr Charles Kempe

Man in a \$700m suit

IT HAD to happen. With 6,000 foreign corporations on its register, Bermuda was bound to be hit with a major insolvency sooner or later, and Mentor Insurance was it.

But little did tenacious accountant Charles Kempe know in the summer of 1985, when he was appointed Mentor liquidator, that he was about to embark on a job that would produce international headlines and a course that would lead him to the centre of one of the insurance world's biggest legal actions.

Now 50, Mr Kempe has grown considerably wiser over the past two years about the ways of insurance companies, lawyers and the Press in general and insolvency practitioners' skills in particular. And he says he is still learning, especially about American law. He is now using American statutes to sue for a massive recovery of funds to pay off hundreds of Mentor creditors.

Time, for the moment, is on his side and is likely to stay there for another couple of years, which is how long the civil action is expected to take to reach trial in the US.

Assuming the final legal battle takes place, it will be fought out in the New Orleans federal court for the eastern district of Louisiana where Mr Kempe and his London-based joint Mentor liquidator Mr Michael Arnold, both partners in the international accounting firm of Arthur Young, began their

action in March last year.

They are seeking \$700m in compensatory and punitive damages from defendants, including Mentor's US parent Ocean Drilling and Exploration Company (Odco), several Odco directors (possibly including the estate of one who died recently) and Bermuda-based Pinnacle Reinsurance, a subsidiary of Lloyd's of London broker C. E. Heath. The liquidators' suit alleges that seven of the defendants devised a scheme to defraud Mentor and its policyholders, using reinsurance contracts issued by Pinnacle to conceal Mentor's true financial condition and allowing it to build up a multi-million-dollar mountain of debt.

The Bermuda court-appointed liquidators' decision to sue in the US has raised complex jurisdictional and country law issues, many of which have still to be resolved.

And their allegations have not only been vigorously and consistently denied but have drawn stinging counter-claims questioning the legal powers of the liquidators and, more controversially, the activities of Mr Kempe's accounting practice.

He has also been criticised for beginning an action that effectively undermines the attraction of an offshore insurance and reinsurance industry which has taken years to build up.

Giving his first private interview since starting the suit, Mr Kempe carefully avoided saying anything that could be con-

strued as commenting on the merits of an action to which he now devotes much of his working day. But he clearly regards some of his critics as uninformed and their remarks typical of the kind to be expected in a small market which has still to mature.

"Insolvency work is a fact of commercial life in large jurisdictions and having contracts drawn up under Bermuda law does not immunise the parties against tort litigation in other jurisdictions," he says. "Business in the Western world increasingly crosses national boundaries and it is impossible to conceive that anyone would be allowed to insulate himself in one jurisdiction against his actions in another."

He fiercely rejects criticisms that he has succeeded in removing the gloss from Bermuda's shiny image as an attractive business domicile and argues that, if anything, his work has the opposite effect and boosts investor confidence in the colony.

He sees the Mentor suit as an opportunity for Bermuda to refine and improve its business infrastructure, not taint it.

"We cannot afford to be regarded as a centre where activities can be carried on that are not countenanced elsewhere. In the end, Bermuda's capabilities will only be improved by cases of international insolvencies."

He believes the island's legislation, in particular, will be better off having been tested by a big liquidation. He



Mr Kempe has lost a bit of sleep says he has already discovered anomalies in Bermuda's laws through working on the Mentor insolvency.

"For example, there is no statute here dealing with the termination of the policy liabilities of an insurer or reinsurer which is in liquidation. In Britain and the US it is cut and dried. Policy cover ceases once liquidation begins. But Bermuda is relying on common law precedents and it is still possible here to claim against a valid policy after the liquidation has commenced. This does not help with the efficient administration of a winding up."

Nor has it helped the Mentor estate. That anomaly alone has this year cost it almost \$40m: a provision against the estimated increase in claims on policies still in force on June 21 1985 when Mentor was forced into liquidation by Bermuda's insurance authorities.

In many ways, Mr Kempe is something of a pioneer. Just 12 months before Mentor collapsed, he became the first Bermuda liquidator to sue for a recovery through the US legal system when he began an action for fraud over the insolvency of

a company called Dover Insurance. And he is one of fewer than half a dozen insurance liquidators working in a jurisdiction which, until 1977, had no comprehensive regulations covering corporate insolvency and which has a current untried rulebook that is still barely four years old.

Which accounts for the occasional bout of discomfort. "I cannot, in all honesty, say that I haven't lost a bit of sleep here and there over some of my insolvency problems," he admits.

But Mr Kempe predicts the kinks in insolvency work in Bermuda will soon be ironed out. Lawyers and judges are already talking about the need for a commercial court in a colony which relies heavily on its ability to attract and administer commercial activities. And Mr Kempe believes it is only a matter of time before a professional body is set up to monitor and police insolvency practices which will become increasingly important to the development of international business in Bermuda.

Roger Scotton

Profile: Fidelity

Throwing data around the world

DR DAVID SAUL may not have been a competitor in last month's Bermuda International Triathlon but no one could accuse him of standing still in his working life.

A policy of changing jobs every five years has allowed Dr Saul, an engaging 47-year-old Bermudian-born white, to be a schoolteacher, university professor, education official, and Bermuda's Financial Secretary - all before 1981. In passing he has held a string of Bermudian running records.

It was in 1984, after three years as chief administrative officer of Bermudian financier Sir David Gibbons' private business empire, that he was approached to head Fidelity International, the Bermuda-based mutual fund and investment group.

"I showed no interest at first as it appeared to be just another exempt company," he said. In other words it appeared to be little more than a brass nameplate.

Fidelity, the largest of about 10 Bermuda-incorporated mutual funds, is indeed an exempt company, he said. It is designed for Japanese investors and invests funds overseas on behalf of US pension funds under legislation allowing them partial diversification of their portfolios into overseas equities. The third main area is investing large blocks of money in equities for institutions and governments.

Staffing in Bermuda has risen by about 30, to a total of 90, over the past year to handle growth in the company's business, while worldwide staffing has doubled to more than 600. Pembroke Hall serves as the administrative and computer centre for subsidiaries from Sydney

back through the time zones to San Francisco. In this, its location is ideal, says Dr Saul. The company had originally located in Bermuda for tax reasons, but US tax changes meant that this had no bearing on present reasons for

operating in the colony. Instead, Bermuda's status as an offshore centre, close to the US and with excellent communications, are the crucial factors. After the Wall Street close, prices are transmitted to Fidelity's computers in Bermuda, which recalculates the net asset values of its funds and sends them on in time for the start of trading in Tokyo the following day.

The Bermuda office also runs the book-keeping and accounting for the group as a whole, although in the UK there is a separate service unit for the sizeable unit trust business there.

That's the future of Bermuda - using its communications and throwing data around the world at 183,000 miles a second," enthuses Dr Saul, whose small office walls display framed tombstone ads for the first Fidelity International funds, the Pacific and the International, along with copious family pictures and a book waiting for a picture of Mr Johnson Jr.

He looks on Fidelity International as almost a Bermudian company, given the size of its presence on the island - far larger and more entrenched than its rivals. Ironically, though, its exempt company status prevents it from offering its mutual funds directly to potential local investors. They could, however, invest through a bank.

The company has room to expand its present site, and is likely to erect a new building in the style of the present one. A tunnel will run between the two, close to the quay where Dr Saul parks his boat.

He prefers, however, to run home, choosing a three, six or ten mile route to keep fit for Bermuda's annual marathon.

Andrew Baxter

Shipping registry

Class A grading sought

BERMUDA HAS long battled against inaccurate labels to describe its commercial activities, yet the tax haven tag persists. The country's 200-year-old shipping registry is still referred to as a flag of convenience.

But, as a dependent territory of the UK, the island claims that it rigorously applies British shipping requirements to the 105 commercial vessels on its register, which Mr Sidney Stallard, Transport Minister, maintains is of top quality. It's a misnomer to describe us as a flag of convenience and it's detrimental to our reputation," he says. He suspects the label is tempting easy to apply whenever a carrier decides to re-flag from any major shipping centre in the grip of powerful trade unions to a small one whose authorities leave unimpaired to individual ship owners.

Though he would dearly love Britain to relax its manning rules - "our register would increase almost straight away" - his immediate priority is to get three UK marine conventions applied to the Bermuda registry. The minister says business has been lost to other registries because Bermuda is not included in safety, marine pollution and seamen's training and welfare conventions in operation since the 1970s.

"Our ship surveyors apply these conventions but because they have not been specifically extended to Bermuda, we are unable to get the benefit of be-

ing able to encourage shipowners to register here. I know of several cases where we have lost business, where ships have come off the UK registry and bypassed Bermuda in search of another registry because the owners wanted these conventions in place."

Mr Stallard now thinks the conventions could be in force in Bermuda quite soon. He says that talks between British and Bermudian transport officials started in January and that the island is close to meeting the UK's demands.

"Britain has left us in no doubt that it wants to see us taking on more staff for the shipping registry in order to show that we are capable of carrying out surveys properly," says the minister. "We have agreed to use eight marine surveyors, three of them based in Bermuda and the other five in the UK to be called on as required."

With two full-time surveyors on his payroll and one more in the office, the Transport Minister is confident the conventions will be extended. Already, he has had draft legislation drawn up that would get them onto Bermuda's statute book the minute Britain gives the green light. But he would prefer this to happen sooner rather than later.

Britain, he says, is already in the process of considering a plan to grade all Commonwealth registries on their abilities to survey different classes of vessels. And he predicts

there could be some departures from the Hong Kong flag in the run-up to 1997 when China regains sovereignty over the Far Eastern colony. "We just want to be in a position where we can attract all shipowners and to do that we are going to need a Class A grading from the UK. I gather that one British colony is not applying UK manning requirements, but it was made clear to us in London that if we followed that route and went our own way on manning, we must not expect to get that rating."

The prospect of increased revenues and international exposure is the twin goal of Mr Stallard's drive for more registrations. Though he prefers not to talk in terms of profit, the Bermuda Registry last year contributed close to \$1m to the Government's coffers. And there are added financial spin-offs in the shape of shipping holding companies which pay government fees and duties and provide work for local banks, lawyers and accountants.

At the end of July this year the commercial registry stood at 1.9m gross tons of cargo, fishing and passenger vessels, the majority of which, says the minister, were on the UK Register before crossing the North Atlantic to Bermuda. "But it's been higher. At one time we were well over 2m tons but we should be able to surpass that once we get those shipping conventions in place."

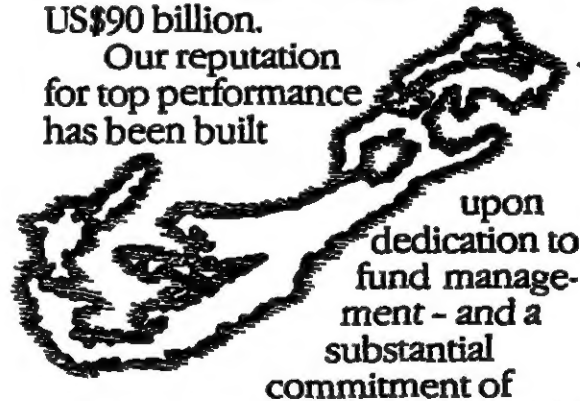
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BERMUDA 6

Banking

Buoyancy offshore

BERMUDA'S THREE BANKS are pushing ahead with their international expansion plans, backed by heavy investment in technology and new, larger locations at home and abroad. The country's two largest banks, Bank of Bermuda and Bank of N T Butterfield, have recently reported increased earnings for the year ended June 30, although the percentage rises vary according to the progress of spending on computers and related equipment.

The much smaller Bermuda Commercial Bank, in which Barclays Bank of the UK has a 32.49 per cent stake, is also expected to show improved profits for the year ending September 30, after a 22 per cent downturn in 1985-86.

Given the size of the domestic Bermudian dollar banking market, with a total of some \$750m in loans outstanding, and the strict curbs on interest rates - underpinned by exchange controls - it is hardly surprising that the banks should be looking overseas for growth.

A major factor in the growth of the banks has been the rapid development of the offshore business sector over the past 15 years. The banks are incorporated locally, and offshore banks have been kept out, due as much to the existing banks' clout as to a wish to preserve the colony's reputation.

This has put the banks in an ideal position to service the needs of Bermuda's international businesses. The two sectors' developments have, in fact, been interdependent, as the existence of banks with growing expertise in such areas as investment, currency dealing and trust business is normally an important element in a company's decision to register in Bermuda.

The recently-released Archer report on the economic impact of tourism and international business reports that, in 1985, the three banks generated \$83m in net foreign exchange receipts from Bermuda-based operations. Of this, \$48.2m was in the form of professional and bank fees paid by international companies in Bermuda.

Bermuda's status as an offshore financial centre also gives the banks a profile very different from British or US commercial banks. Although combined assets have grown to about \$8.5bn, total loans are only around \$1bn.

The relatively low proportions of loans to balance sheet totals also gives the banks the liquidity to be significant players in the interbank market.

According to the Bermuda Monetary Authority, the combined assets of the three banks at the end of 1986 included \$830m in cash and deposits with banks, and \$3.7bn in time deposits.

Servicing the needs of international clients has long since required the two main banks to set up overseas offices. But, increasingly, they are using their expertise in fee-based, off-balance sheet banking to develop a worldwide banking network seeking business with no Bermudian connections.

In attempting to do this, variations in strategy and timing have emerged. First in the field, by general agreement, was Bank of Bermuda, the largest of the three, which earlier this month announced a 28 per cent rise in net earnings to \$25.9m for 1986-7.

Mr Donald Lines, chief general manager, describes the three main slices of non-domestic business as investment-related, insurance-related and a variety of trust and exempt company work.

The bank had set itself a target 10 years ago of deriving 60 per cent of its revenues from fees, which had now been achieved with fee revenues up 36 per cent to \$63m in the year just ended. Total revenues, including \$19m of Bermuda-dollar business, rose 25 per cent to \$100m, while the balance sheet total grew from \$3.3bn to \$3.7bn.

The bank was trying to be among the most competitive in the world in areas it knows best, Mr Lines says. It has overseas offices in the Channel Islands, where strong growth in mutual fund activity boosted assets under administration by 74.5 per cent to \$552m in the year just ended, and a sizeable trust company in Hong Kong, where assets under administration more than doubled to \$1.8bn in the year. In both these centres the bank has recently moved into new, expanded offices.

In New York, the bank's Edge Act operation, which is limited to foreign banking activities, mainly handles money transfer and clearing business, and reported its first monthly profit in May after opening in June, 1984.

In London, Bank of Bermuda is seeking Bank of England approval to establish a full-service bank in place of the present clearing and support facility. In general, Mr Lines says, "we've wanted to build from the ground up", rather than make acquisitions.

A programme to link all these offices with the bank's Bermuda-based computer is nearly complete, allowing the bank to provide a unified range of services. One benefit of the computerisation was the introduction during 1986-7 of Bankline, allowing selected corporate customers to obtain account information and market data. Eventually it is hoped to allow customers to initiate transactions on-line. Looking ahead, the bank says thought must be given to construction, or acquisition, of an additional building in Bermuda.

At Bank of N T Butterfield, Sir David Gibbons, who became chairman in October, admits that the larger Bank of Bermuda definitely forged ahead in the early 1980s and was still a couple of years further advanced on computerisation.

Sir David, who rejoined the bank in May last year after 14 years in government and the Bermuda Monetary Authority, says the bank has been moving rapidly since then with the help of a new management team, having officially adopted a strategic plan a year ago.

The most tangible evidence of



Mr D P Lines

this is a \$15m six-storey office block under construction just south of the centre of Hamilton, and almost within a stone's throw of Bank of Bermuda's imposing harbour front headquarters.

The new development will serve as the bank's operations centre, housing some of the computer and telecommunications equipment being bought in a \$10m-plus systems improvement programme due for completion next June.

The bank has the largest share of the domestic market, which Sir David describes as fully-covered and quite highly developed. However, part of its new strategy has involved taking a hard look at its existing international operations to decide whether they fit with the current banking environment.

As with Bank of Bermuda, Butterfield has developed a strong customer base in Hong Kong, counting Jardine Matheson and the Keewick family among its customers. In April it opened a representative office there, and is awaiting permission to carry out fund administration and other activities short of a full banking licence.

In the UK, it commissioned Mr Ian Hay Davidson, former chief executive of Lloyd's of London to look at alternatives to its existing agency business. The result was last month's acquisition of Seymour, Pierce, a small London broker, for an undisclosed sum.

This will be used as the vehicle for expanding the bank's London business into foreign exchange, treasury, fund management and Eurobond dealing, reflecting Sir David's view that sterling become a credible currency again.

Butterfield is also looking at a possible presence in continental Europe, and commissioned a report on future strategy for the US, where it had two representative offices which received subpoenas from the Internal Revenue Service in respect of clients. A different approach is now envisaged.

Elsewhere, the bank has an active presence in the Cayman Islands, and a fast-growing trust company affiliate in Guernsey.

The result of this expansion, once completed, will give the bank near 24-hour coverage of the world's financial markets. In the present transitional period, however, Butterfield could only lift 1986-7 profits by 10.5 per cent to \$15.7m, while assets rose from \$2.41bn to \$2.55bn.

Last into the domestic banking arena was Bermuda Commercial Bank, formed in 1980-70 and a single-office bank.

"There is absolutely no point in us expanding physically in Bermuda," says Mr Michael Shadrach, managing director, although he stresses that the bank is by no means turning away Bermuda dollar business.

Instead he sees the thrust of the bank's growth plans in financial services, calling on Barclays to provide technical back-up.

Extra staff, including a senior manager from Butterfield, are being recruited for managing and marketing funds, and the bank hopes to start an investment managing company targeted at the professional investor. This would be aimed worldwide through Barclays.

The affiliation also enables BCB to offer clients sophisticated treasury instruments and facilities, and 40 per cent of the bank's 100 staff are on the treasury side.

Another significant contributor to profits is 60 per cent-owned International Trust Company of Bermuda, which manages exempt companies and offers registrar and transfer agency services.

The banking sector's expansion plans have prompted demands for new capital. Last month Butterfield announced a \$20m rights issue and earlier in the year Bank of Bermuda raised the same amount in convertible subordinated notes.

Expansion has also brought a steady rise in staffing levels, taking total employment in the three banks to around 2,250 worldwide.

Even so, the banks remain small in world terms and they cannot, and would not, hope to compete in traditional large-scale cross-border lending. Instead, as Sir David Gibbons puts it: "We've always tried to find a part of the market that we can service more on a boutique basis."

At Bank of Bermuda, Mr Lines says: "We have no ambitions to have offices everywhere in the world." Domestically, the lack of major opportunities, short of continued installation of automated teller machines, is less worrying to the banks than staffing problems in an island of over-employment and talent shortages.

Sir David notes a tiresome 25 per cent annual turnover in Butterfield's tellers. At more senior levels, the banks have difficulties finding the right quality of Bermudian staff, and bringing in non-Bermudians pushes salary levels up.

Andrew Barber

Banking regulations

Need for change accepted

THE SPEED and efficiency with which Bermuda's lawyers, accountants and civil servants can process an application to set up an offshore company is normally matched by a more measured approach to legislative change.

Nothing, it appears, is enacted before being discussed in working parties and advisory committees, sometimes delaying legislation for years. On the face of it, therefore, the urgency with which Bermuda is addressing the need for proper regulation of the banking sector comes as a surprise.

All the more so as other possible changes to Bermuda's financial system, such as the relaxation of exchange controls or - more putatively - opening up the offshore sector to hitherto forbidden businesses, are the subject of intense, and often rancorous debate. For political reasons a cautious approach to change is therefore inevitable.

Mr Tony Goodfellow recalls that he ruffled a few feathers in the banking community last year, soon after taking over as general manager of the Bermuda Monetary Authority, when he asked why there was no banking supervision on the island.

Notwithstanding the late response from one senior banker, Mr Goodfellow had a point. At present the banks are required to disclose "very little real information on anything," he says.

In the 1980s, when Bank of Bermuda and Bank of N T Butterfield were essentially domestic banks, they felt there was no need for them to be regulated. This view prevailed despite considerable international expansion in the past 10 years, especially by Bank of Bermuda, and growing sophistication of banking and fiduciary products and services.

Only two years ago, the banks fought against the suggestion, made in an independent study, of closer supervision. Since then, however, there has been a sea-change in attitudes, principally to the rapid globalisation of financial services which has required stronger supervision by the world's leading regulatory authorities.

Bermuda's banks now realise that without effective supervision at home, and also a clear perception of this overseas, their international growth plans could be stymied.

Bank of Bermuda's current application for a banking licence in the UK is one example of the sort of venture that is unlikely to be approved unless the overseas regulatory authority, in this case the Bank of England, can be assured that there is effective supervision in Bermuda.

The need for change in financial services regulation generally is now accepted throughout Bermuda's financial community and beyond. Sir David Gibbons, chairman of Bank of N T Butterfield, says it is "right, proper

and necessary" that Bermuda should respond to the growing interest shown by overseas authorities in how the island regulates its banks.

At the Bermuda International Business Association, comprising Bermudian banks, accountants and lawyers servicing international business, Mr Stephen Kempe, president, says: "All members feel that the regulatory process has got to be updated to bring a sense of credibility to the marketplace, which in this day and age is very important."

At present, the Bank Act of 1985 is the main legislation governing banks. It restricts controlling ownership of the three banks to Bermudians, sets out certain lending limits and audit and reporting standards.

After some debate the government has abandoned the idea of a new quango to regulate the entire financial sector and opted instead for an expanded and

He hopes to have parts of the new process in place by the end of this year, but it is clear that progress will be in stages. All parties involved are likely to ensure that red tape is kept to a minimum.

In the long term, the breadth and effectiveness of Bermuda's financial services regulation will determine whether the island can develop its tiny stock exchange, for example, which is seen by some as one possible new business area. Stockbrokers or jobbers are not allowed to establish offshore companies, a situation which Sir David describes as fortuitous in light of recent insider trading scandals like the Boesky affair.

The irony of recent developments affecting bank regulation is that the government would find little to complain about once they examined the books. Although the banks' capital is small, they are highly liquid, and have never become

the regulatory front is more domestic in its nature and effects - exchange control and curbs on domestic interest rates.

Bermuda has been subject to exchange control regulations of some sort since World War Two, although the present rules, with some minor changes, go back to 1972 when the island left the sterling area.

The controls are intended to recognise the inherent fragility of the Bermudian economy, with its reliance on tourism and international business, and protect the local economy from foreign infiltration.

To contain possible outflows, Bermudians have been restricted to \$3,000 per overseas trip, although this may be raised in special circumstances. Overseas investment is limited to \$25,000 a year per adult and is taxed at 10 per cent.

A recent report for the BMA by Mr Graham Maskens, an exchange control expert, concluded that total abolition of the controls would reduce Bermuda's influence over ownership of local companies and cause Bermudian interest rates to vary in line with those of the US.

Bermuda's fixed interest rates, based around a 7 per cent lending rate, are widely seen to have given the island's small economy considerable stability through years of high interest rates elsewhere, particularly in the US.

But the much improved balance of payments position over the past year, and considerably-reduced interest rates overseas, have led many in Bermuda's business community to suggest the time is right for substantial changes, particularly on overseas investment.

The most vocal opponent of this view, ironically, is Mr Lines, whose bank lost nearly \$2m in 1987 on its domestic business because of the interest rate curbs, effectively subsidising the local economy. However, Mr Lines believes this is a price worth paying for the economic and political stability it achieves.

After considerable debate within the ruling United Bermuda Party and Cabinet, this view has eventually held sway. Last month Dr Clarence James, Finance Minister, raised the overseas travel allowance to \$5,000 per trip and reduced the form-filling required for obtaining small amounts of foreign exchange.

But the overseas investment limit of \$25,000 remained - and would have had to be raised to \$50,000 just to keep pace with inflation. Dr James is anxious not to see substantial outflows of capital eating into current domestic liquidity, and hence reduce the government's ability to substitute Bermuda dollar debt for foreign debt, which is more costly to service.

Andrew Barber

Coining it

VISITORS TO Bermuda are taking money out of the country in increasing quantities, but are unlikely to feel the wrath of the country's exchange control authorities.

For the money in question is commemorative coinage forming the basis of Bermuda Monetary Authority's numismatic programme, which has been actively marketed to tourists and residents over the last two or three years.

The island has produced commemorative coins since decimalisation of its currency in 1970, and the 1987 coin (pictured) is the third in a five-year series of crown-size silver dollars. It commemorates the 50th anniversary of commercial air travel to Bermuda, and features an early commercial flying boat.

The BMA's numismatic revenues rose 25 per cent to nearly \$250,000 last year, a figure which will be easily surpassed this year, while profits jumped from \$62,600 to \$104,550.

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BERMUDA 7

Tourism

Quality the keynote



Bermuda's most famous beach, Horseshoe Bay

THE BERMUDAN tourism industry has reached another turning point following a near-record year in 1986, the best in purely numerical terms since 1980.

After a disastrous year in 1981, when industrial problems briefly brought the island to a halt, total visitor numbers rose steadily before dipping again in 1984. Last year saw visitor arrivals rise 7.8 per cent over the year to 591,716, and first-half figures for 1987 suggest 1986's record of 609,556 may be broken.

For Bermuda, however, tourist numbers are not in themselves an accurate indicator of the industry's economic importance to the island. "We're not in the numbers game," said Mr Gary Phillips, director of tourism.

Visitor spending, despite an 18.5 per cent rise to \$422.5m last year, is still down in real terms from 1980 levels.

Correcting this will depend to a great extent on the success of the island's marketing programme not only in attracting the right sort of people to Bermuda but in getting more of them to come in the hitherto quieter parts of the year.

In Bermuda's case, the right sort of people are rich tourists and free-spending US conference delegates. Over half of Bermuda's visitors earn more than \$50,000 a year, and half of those earn \$75,000 plus.

Last year's evidence suggests that the marketing message is getting through. While the "Gadafi factor" and the weak dollar were clearly important in deterring Americans from visiting Europe, other alternative island destinations to the south failed to register the gains made by the colony.

The present marketing policy goes back to 1984, when it was decided Bermuda needed to take the initiative in promoting its undoubted physical attractions along with its political and economic stability, in a way that would attract the "up-scale visitor."

Some key tasks, however, remain to be accomplished in 1987 and following years. First, Bermuda must continue the search for new markets in the US, which accounts for 87 per cent of visitors.

While the north-east corridor and the mid-Atlantic regions provide the mainstay of Bermuda's tourist business, being in some cases just 14 hours' flight time away, Bermuda last year identified a growing interest among Californians, a market previously covered only in the evening of the day they set off.

Visitors from Virginia and West Virginia are up 17.4 and 14.9 per cent in the first six months of 1987 following the decision to place a salesperson in the area.

The second task is to boost travel from Europe, and thus lessen Bermuda's vulnerability to sharp swings in sentiment among US tourists largely for reasons beyond the island's control. Mr Phillips said he would be more comfortable if the percentage of visitors from the US fell from 87 to 75 per cent.

In the UK, the marketing effort has been handed over to the consultancy Bryan, Constantini and Brightwell, under a five-year management contract. The organisation has allowed more money to be spent on marketing, where Bermuda had "suffered from a low visibility" versus the other long-haul destinations, according to Mr Derek Brightwell.

UK visitor arrivals are up 18.6 per cent in the first six months of 1987. In the autumn, British Airways, the only airline to fly from Europe to Bermuda, will increase its service from four to five flights a week, terminating in Tampa rather than Orlando. It is hoped this will increase seat availability for visitors from the UK.

The reorganisation should help to address the different marketing challenges of the UK, where Bermuda is competing in a buoyant long-haul market, and the US, where it is increasingly seen as the venue for a long break.

As for continental Europe, a study has just been completed suggesting what Mr Phillips called a "tremendous opportunity" among affluent West Germans, who would enjoy "a Ber-

Regular visitors to Bermuda by Country of Origin

	U.S.	Canada	U.K.	Other	Total
1982	302,583	29,668	15,588	9,388	457,227
1983	330,709	32,422	13,615	10,140	486,886
1984	333,173	32,912	13,600	9,876	489,561
1985	354,347	28,576	13,179	9,459	405,561
1986	356,610	31,580	15,337	14,757	418,284

*Does not include cruise passengers.
Source: Tourism Department

muda-type of experience."

France, however, where August is the favourite holiday month, is seen as less promising, as Bermuda already takes in as many as it can handle during the high season. No talks will be held with European airlines until numbers pick up from the present very modest levels.

The third area for attention, therefore, is development of the low-season, from mid-November to the end of March. Known as the "rendezvous season" because more people tend to make repeat visits then, it is Bermuda's "only real window of opportunity," according to Mr Phillips, to boost tourism revenues without causing overcrowding.

The 1986/87 rendezvous season saw a 17.6 per cent increase in visitors to 101,000 from 86,000 a year earlier, helping produce a 13.5 per cent rise to 280,928 in the first half of 1987.

Success of this programme again requires different marketing, with emphasis on culture, heritage and events rather than sun and surf.

With hotels and most guest houses full in the summer months, the winter season presents one of the few opportunities for the industry's occupancy rate to be increased from the current 68 per cent.

Another method would be expansion of the convention business, which currently accounts for 23-25 per cent of arrivals. Bermuda would like to bring this to about 30 per cent, but this is unlikely to happen until the US Congress ratifies last year's tax treaty under which conventions in Bermuda would be tax deductible for US corporations.

Ratification would have a tremendous impact, says Mr Phillips. There are a number of companies sitting on the fence right now, trying to decide whether to choose Bermuda.

The most important task for Bermuda's tourist planners, and for the 5,200 directly employed in the hotel industry, is to ensure that the island remains an attractive, interesting place to visit. Amenities for tourists have developed rapidly over the past 10 years, with a surge in the number of restaurants of all types. Hotel and guest house capacity has, however, been pegged at 12,000 since 1972, the cornerstone of a policy to prevent spoiling the environment.

The moratorium is tightly controlled, and guest houses may increase their beds only if others have been taken out of use and put into the Department of Tourism's bed bank.

Ministerial permission is required for a "withdrawal."

Mr Phillips says the industry's occupancy rate would have to rise to 76 per cent before consideration could be given to relaxing the moratorium. Even if it was, however, there is little room for further hotel development.

One of the few remaining areas is the former British dockyard at the island's West End (see accompanying article). This will provide a berth for large liners such as the QE2, which can only stand at anchor at present, and reduce overcrowding in Hamilton.

Some critics of the Government's tourist policy already feel that development has gone far enough. Mr C.V. "Jim" Woolridge, former Tourism Minister and now a vociferous backbencher, regrets the passing of the old, sleepy, Bermuda, and says a lot of its friendliness and quaintness is being lost because of overcrowding.

He also criticises fare-cutting by some of the cruise lines calling at the island, which encourages the less affluent to visit.

Cruise arrivals, up 29 per cent in the first half of 1987, are less important to Bermuda because passengers sleep on board. On shore, they spend about \$50 a day, against \$1,000 for the average five-night stay by air arrivals.

While many would disagree with Mr Woolridge's views, there is evidence that retailers relying directly on tourist spending are seeing very little real growth in sales this year, in contrast to other sectors of the economy.

US visitors have traditionally been drawn to the upmarket Front Street stores selling British woolsens and other clothing at prices up to 25 per cent less than at home.

A recent finding by one of the Tourist Department's exit surveys conducted at the airport found that only 36 per cent of travellers found the shopping as good as expected. Mr Woolridge believes many upmarket visitors are put off by cheap T-shirts.

In true Bermudian style, a Government thinktank involving hotels, airlines and others in the industry has been established to decide how to keep Bermuda at the "pinnacle of destinations," as Mr Phillips calls it.

If the success of last month's world-class triathlon event is anything to go by, there will be more big events to keep Bermuda on the map. The triathlon, which attracted more than 200 athletes, will be shown on the US ESPN network in October, sandwiched between adverts extolling Bermuda's attractions.

Andrew Baxter

West End Development Project

Dockyard will bloom as national park

MORE THAN half a million tourists visit Bermuda every year, yet only a few thousand go to one of the most historically significant spots on the island: the long-abandoned naval dockyard at the west end of the colony.

And it is not hard to see why. Abandoned is an apt description for what was once a bustling centre of employment with a workforce of over 2,000. Many of the original limestone buildings, built 100 years ago by convict labourers and Bermudian workers, are now used as warehouses—apart from one which houses Bermuda's Case-mates prison. The only purpose-built tourist attractions are a maritime museum and an arts and crafts centre. The area has the atmosphere and curiosity value of a graveyard.

But, slowly, the dockyard is coming alive. The Bermuda Government, which bought the 214-acre site from Britain in 1953 for \$900,000, has stopped trying to turn it into a freeport for a re-export industry that never got off the ground. Instead it has approved plans to develop what Mr Bob Tucker describes as a national park there.

Mr Tucker is general manager of the West End Development Corporation (Wedco), a semi-autonomous body charged with overseeing the dockyard's complete transformation by the year 1997. Wedco was formed in 1982

on the strength of recommendations contained in a study by the UK's Environment Ministry. The Ministry study team, from Britain's Peterborough New Town Development Corporation, provided a framework for further studies and for what now ranks as Wedco's "bible"—the 1984 West End Development Plan, which proposed the spending of \$92.4m on the area over the next decade, more than \$50m of it from the public purse.

But the time for studies and proposals is over and Mr Tucker and his chairman Kit Astwood are now assembling a team of doers rather than conceptual planners. The doers have already done a great deal. The \$2m first phase of a marina has already been completed. A deep-water cruise ship dock should be finished by the spring and work will begin before the end of this year on the construction of 200 homes at the west end.

"Our objective is to attract people to the west end," says Mr Tucker. "I mean locals and tourists. At the moment fewer than 50,000 people, mostly tourists, visit the dockyard every year and most of those go to the maritime museum. We want about half of Bermuda's tourists to spend at least a day there."

Attracting an additional 250,000 people a year will not be easy on a holiday island where most tourists spend their time on the beaches, the tennis courts and the golf courses. The dockyard has none of these. Nor can it yet boast a hotel, though Mr Tucker says one is likely to be considered in the next five years.

But the cruise ship facility will help boost the body count next year at the rate of about 1,000 passengers a visit.

Wedco is keen to have the deep-water berth ready to receive its first cruise ship, the Chandris Line's Galileo, on May 1 1988, and it hopes to sign up other cruise operators that are unable to get berths alongside the capital of Hamilton or at the east end town of St George's.

"We have a commitment from Chandris that it will use us next year as soon as we're ready," says Wedco's general manager. "But we've made it clear that we are not yet ready to sell the west end as a tourist destination and won't be for another five years."

By May, Mr Tucker also hopes to have developed a small area of about 10,000 sq ft around the dockyard devoted to retail shops and restaurants.

"We're just now in the process of looking at how many shops we can accommodate and what sort of outlets we need. We've had a lot of applications from businesses in Bermuda so there's no shortage of interest."

Wedco's approach to all its commercial tenants is to agree on a minimum rent and a share of gross revenues on top—a philosophy it says is vital to the long-term success of the dockyard project.

"Our feeling is that we need to be partners with the private sector rather than just having a landlord-tenant relationship in which each grabs as much as he can at the expense of the other and sometimes at the expense of Bermuda. We want a working relationship which is not going to make everybody happy but is going to stand more of a chance

of success in creating jobs and revenues. And, in time, we hope this approach will help us become self-funding and that we won't have to rely on operating grants from the Government."

"In time" is a commonly-used phrase at Wedco, whose chairman believes that the last thing Bermuda needs is a development project that will be pushed along at such a speed that it drains the colony's fragile economy and applies avoidable pressure on a service infrastructure built to accommodate a resident population of 56,000.

Says Mr Astwood: "We don't want a big project like this being completed overnight. It has to be developed at a pace that will suit the economic growth of Bermuda. Imagine the problems we would face if we had to issue hundreds of work permits to a developer bringing in foreign construction crews. For a start there would be the question of where they would all live."

The publicity value of a grand opening, however, has not been overlooked by Mr Tony Smith, the businessman who has built the 80-berth first phase of the marina and secured a 21-year lease from Wedco to operate it. He hopes America's Cup champion Dennis Connor will be on hand to cut the marina's ribbon next year. Mr Smith says that Mr Connor, who skipped the Stars & Stripes yacht to victory in the 1987 America's Cup, is interested, provided the fee is right.

In addition to new residents and tourists, Wedco is also looking at the possibility of attracting office workers, not that they will have anything to work in for some years to come.

To many native Bermudians, the west end has traditionally offered an escape from the island's overcrowded central parishes: the nearest thing to the countryside on an island of less than 21 square miles. Most locals regard a trip to the dockyard as a major outing, involving a drive of up to 45 minutes.

"That mentality might have to change if offices start being built there," says Mr Tucker. "It's also an attitude we'll have to try to change if we want to get local people to spend more of their leisure time there."

Roger Scotton

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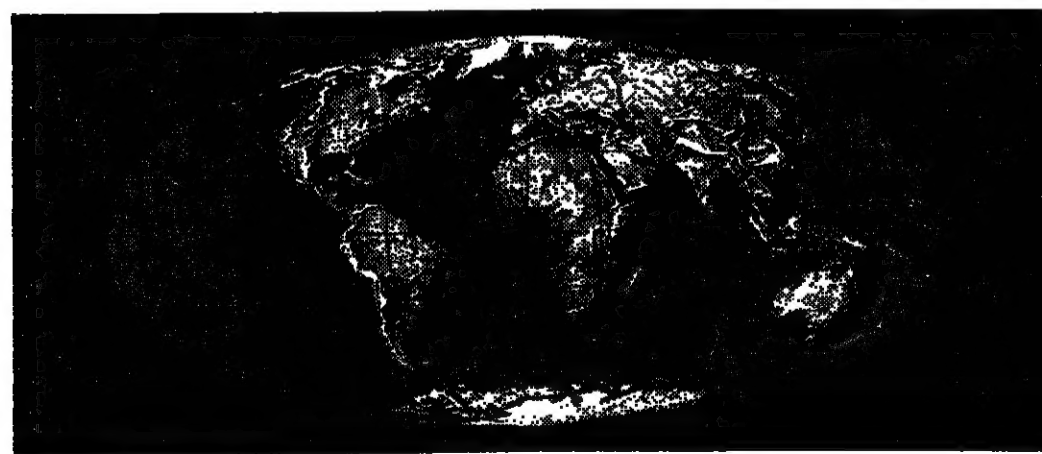
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BERMUDA 8

Futures exchange

World yet to be taken by storm

WHEN INTEX, the world's first fully automated futures exchange, opened for trading in October 1984, there were many in the futures business - and in Bermudan financial circles - who were sceptical about its chances of survival, let alone its ability to make an impact.

Nearly three years later, the exchange, which operates from a modest office in central Hamilton, is still up and running. But Mr David Thompson, general manager, freely admits that Intex "hasn't taken the world by storm". Despite the advantages of an automated system - trades can be executed accurately in three seconds or less from anywhere in the world in a fully interactive process - futures trading is still dominated by the time-honoured method of pit-trading and open outcry.

Now, with other exchanges fast developing their own automated systems, Intex is launching a drive to sell its present products more, and ensure its long-term survival by launching new products and services.

Success in this would be important not only for Intex's backers, investors in the US, Bermuda and the UK who have yet to see a profit from the venture after investing \$14m-15m in technology, but for Bermuda.

With the island's time-zone position, four hours behind London and one ahead of New York, an automated international stock exchange could be a possibility, Mr Thompson suggests.

Intex began trading with one contract, in gold, which was dropped early last year in recognition of the heavy competition from the established futures centres.

In May 1985, the exchange launched its Ocean Freight Rate futures contract, based on the Baltic Freight Index (BFI) and fungible with Biffex, the Baltic International Freight Futures Exchange. Positions in fungible futures products can be opened in one market and closed somewhere else.

With the contract based on a service, rather than a physical or financial asset, it is "quite complex, somewhat difficult to understand," according to Mr Thompson.

Futures trading thrives on volatility, and despite the quite frequent sharp movements in freight rates, emphasised when last year's Chernobyl nuclear

catastrophe raised expectations of major Soviet grain imports, Mr Thompson confesses to being "a little bit disappointed" by the contract's performance to date. Trading is averaging 100 contracts a day, with each contract worth 10 per point of the underlying index.

The exchange is slowly winning support from the shipping industry, which is an important precursor to attracting speculative trading and hence increasing liquidity. A lot of potential risk capital remains untapped, Mr Thompson believes.

The second Intex product, launched last December, is based on the Financial News Composite Index (FNCI), developed by the US Financial News Network. FNCI tracks 30 big New York Stock Exchange stocks and is very similar to the Dow Jones Industrial Average.

The Intex contract trades in two versions, a larger product priced at 100 times the underlying index, or about \$200,000. This has had little or no impact, whereas the smaller contract, priced at 10 times the index, has attracted a reasonable level of interest, notably in Europe.

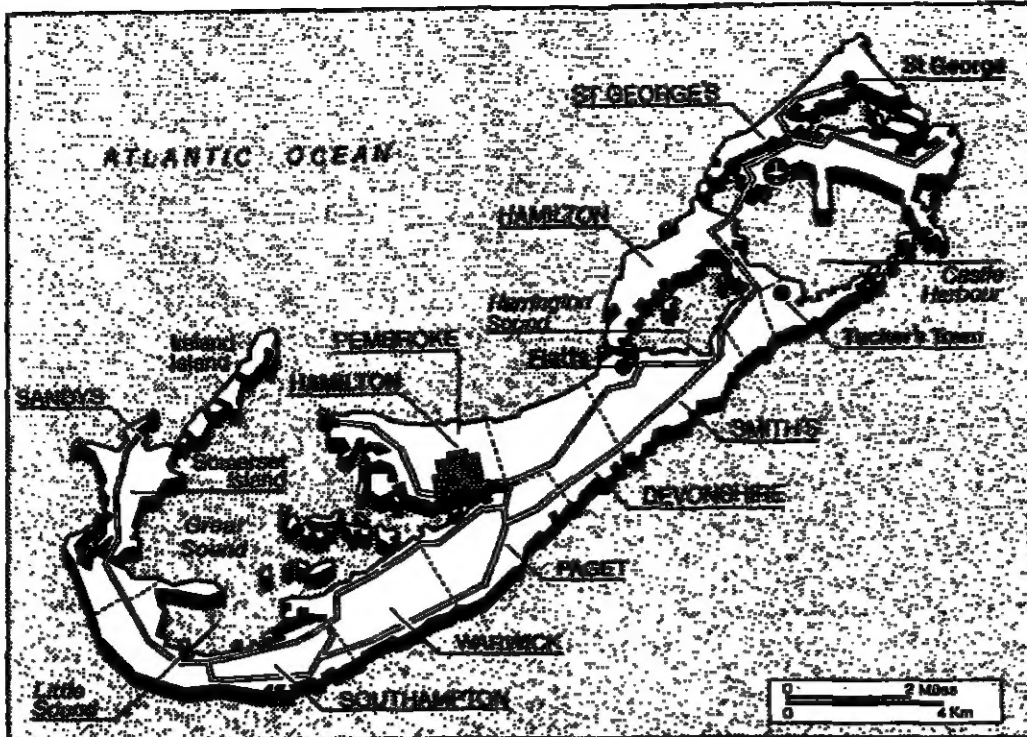
Trading is running at an average of 200-250 contracts a day, although the record is 1,000. A small base of market-makers has been established, and Intex is continuing to pursue new players among institutions such as pension funds.

Intex has a limit of 600 members, who pay \$20,000 to join. So far, 265 memberships have been sold, but only 40 are trading on the system. Converting members from spectators into players will depend on continued expansion of the smaller FNCI contract, giving Intex a base from which to develop new products, Mr Thompson says an interest rate contract is not inconceivable.

Other possibilities include extended trading hours, allowing London traders to use the system in their morning, and licensing the proprietary Intex software to other exchanges, which might use it to extend their own trading hours.

Mr Thompson remains optimistic, and believes that the system's integrity and cost advantages have been proven. "Everybody knows that this kind of venture could become profitable quite quickly. It's do or die," he adds.

Andrew Baxter



St Peter's, the oldest Anglican church in the Western Hemisphere

Compiled by Rivka Nachoma

Business traveller's guide to Bermuda

Currency: Bermudan dollar, 100 cents=Bds\$1 (linked to US\$ which is also in general circulation)

Currency regulations: no restriction on amount of foreign currency, providing it is declared upon arrival. Export of Bermudan dollar restricted to maximum of \$250

Entry requirements: passports are not necessary for citizens of the US or Canada. US citizens must have one of the following documents: valid or expired passport, birth certificate, US voter's registration card with bearer's signature. US naturalisation certificate or US alien registration card. Canadian citizens must have one of the following: passport, birth certificate or a certification of citizenship.

A valid passport is required for citizens of all European countries. Visas are not required except by eastern block nationals and those from Argentina, Nicaragua, Iran and Cuba.

All visitors entering Bermuda must hold a ticket for return or onward travel to a country where they have right of entry. Visitors may remain up to three weeks from arrival. Permission to stay longer granted through immigration officials at Bermuda airport on arrival. To stay indefinitely, it is necessary to apply in advance to the Chief Immigration Officer, Ministry of Home Affairs, PO Box 1364, Hamilton 5, Bermuda.

Customs allowances: import of 200 cigarettes, 50 cigars, 454g tobacco, 1.11 litres of spirits, 1.11 litres of wine

Time: Bermuda is one hour earlier than eastern standard time (one hour earlier than New York and four hours later than London). Daylight savings time from the last Sunday in April to the last Sunday in October

Airlines: American Airlines, British Airways, Eastern, Delta and Pan Am

Car hire: not available. Use a taxi or rent a moped or bicycle

Business hours: offices: 09:00-17:00 (Monday to Friday); shops: 09:00-17:30 (Monday through Saturday, with some local variations); banks: 09:00-15:00 (Monday to Friday, also open Friday 16:30-17:30)

Newspapers: Royal Gazette (daily), Mid-Ocean News and Bermuda Sun (both weeklies, published on Friday)

Climate: semitropical; December through March average temperature 58 deg F; July through September 84 deg F; humidity ranges from 70 to 80 percent

Holidays observed: (movable dates) Good Friday, Queen's Birthday (Mid-June), Cup Match and Somers Day (the Thursday and Friday before the first Monday in August), New Year's Day (Jan 1), Bermuda Day (May 24);



There is no car hire

Remembrance Day (Nov 11); Christmas Day (Dec 25); Boxing Day (Dec 26)

Public holidays falling on a weekend are usually observed the following Monday

Water: tap water is safe to drink

Electricity: 110 volts, AC, 60 cycles

Credit cards: Mastercard, Visa, American Express, Diners Club

Vaccinations: only smallpox, if arriving within 14 days from an infected country

Useful addresses/telephone numbers: (when in Bermuda, dial only the last five digits)

Tourist information office: Old Town Hall, Hamilton 5-23 (809)

Additional telephone numbers: police: 911; fire: 909; ambulance: 6-2000; hospital: 6-2345; weather: 277; "What's on in Bermuda": 274; Cable and Wireless office: 5-4777; taxi: 2-5600, Radio 5-4141

Hotels: the Belmont hotel, golf and country club: PO Box WK 251, Warwick WK BX. Tel: (809) 236-1301. (Rates: depending on the season, from \$115-380 European Plan)

Bermudiana hotel: PO Box HM 542, Hamilton HM CX. Tel: (809) 236-1211. (Rates: depending on the season, from \$115-200 EP)

Elbow Beach hotel: PO Box 455, Hamilton HM BX. Tel: (809) 236-3535. (Rates: depending on the season, from \$154-370 Modified American Plan)

Grotto Bay Beach hotel and tennis club: 11 Blue Hole Hill, Hamilton Parish CR-04. Tel: (809) 233-5333. (Rates: depending on season, from \$180-270)

MAP: Marriot's Castle Harbour resort: PO Box 841, Hamilton HM CX. Tel: (809) 233-2040. (Rates: depending on the season, from \$180-230 EP)

The Princess: PO Box 837, Hamilton HM CX. Tel: (809) 236-3000. (Rates: depending on the season, from \$140-630 EP)

Sonesta Beach hotel: PO Box 837, Hamilton HM CX. Tel: (809) 236-3122. (Rates: depending on the season, from \$168-298 MAP)

Southampton Princess: PO Box 1379, Hamilton HM FX. Tel: (809) 233-3000. (Rates: depending on the season, from \$210-515 MAP)

Restaurants: Paget Parish: Fourways Inn (French). Tel: 236-6517, reservations a must. Tavern on the Green (Continental). Tel: 246-7731, reservations suggested

Pembroke Parish, City of Hamilton: Atrium (Bermudian). Tel: 295-8562, reservations suggested. Chopsticks (Chinese). Tel: 292-0791, reservations a must. Fisherman's Reef (seafood). Tel: 292-1609, reservations suggested. Lobster Pot (seafood). Tel: 292-6898, reservations are essential. Loquats (Continental). Tel: 292-4507, reservations suggested. New Harbourfront (Continental). Tel: 295-4207, reservations suggested

Southampton Parish: The Greenhouse (French). Tel: 238-5122, reservations essential. Newport Room (Continental). Tel: 238-8000, reservations essential. Waterlot Inn (Italian). Tel: 238-8000, reservations necessary. Windows on the Sound (Continental). Tel: 238-6000, reservations suggested. Tipping: 15 per cent (if not included in the bill); porters \$1.

St. George's Parish: Carriage House (Continental). Tel: 297-1790, reservations suggested. Fort William (Continental). Tel: 297-0804, reservations suggested. Margaret Rose (French). Tel: 297-1200, reservations essential

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